

**New Issue  
Book-Entry Only**

**Moody's Rating: Aaa (underlying Aa2)  
Standard & Poor's Rating: AAA (underlying AA)**

*In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations. Interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.*

**\$52,525,000**  
**The City of Seattle, Washington**  
**Water System Revenue Bonds, 2001**

**DATED: November 1, 2001**

**DUE: November 1, as shown below**

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede and Co. as bond owner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be paid semiannually on each May 1 and November 1, commencing May 1, 2002. The principal of and premium, if any, and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York, and its co-fiscal agency, Well Fargo Bank N.A., Seattle, Washington), to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix D.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are special limited obligations of the City. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (subject to certain restrictions) are pledged for payment of all Parity Bonds, including the Bonds. This pledge is superior to any other liens or charges. See "Security for the Bonds."

**The Bonds do not constitute general obligations of the City, the State of Washington or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.**

<b>Due November 1</b>	<b>Amounts*</b>	<b>Interest Rates</b>	<b>Yields</b>	<b>Due November 1</b>	<b>Amounts*</b>	<b>Interest Rates</b>	<b>Yields</b>
2005	\$ 1,050,000	4.50%	3.00%	2014*	\$ 1,490,000	5.00%	4.39%
2006	1,085,000	4.50	3.22	2015*	1,555,000	5.00	4.52
2007	1,125,000	4.50	3.46	2016*	1,630,000	5.00	4.62
2008	1,165,000	4.75	3.67	2017*	1,705,000	5.00	4.73
2009	1,210,000	4.75	3.80	2018*	1,790,000	5.00	4.82
2010	1,260,000	4.75	3.90	2019*	1,875,000	5.00	4.90
2011	1,310,000	4.75	4.00	2020*	1,970,000	5.00	4.97
2012*	1,365,000	5.00	4.14	2021	2,070,000	5.00	5.02
2013*	1,425,000	5.00	4.27				

\$12,025,000 5.00% Term Bonds due November 1, 2026@ 5.08%

\$15,420,000 5.00% Term Bonds due November 1, 2031@ 5.09%

(Plus accrued interest from the dated date.)

\* Priced to call date of November 1, 2011.

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company. See "Municipal Bond Insurance" and "Ratings" under "Other Bond Information."

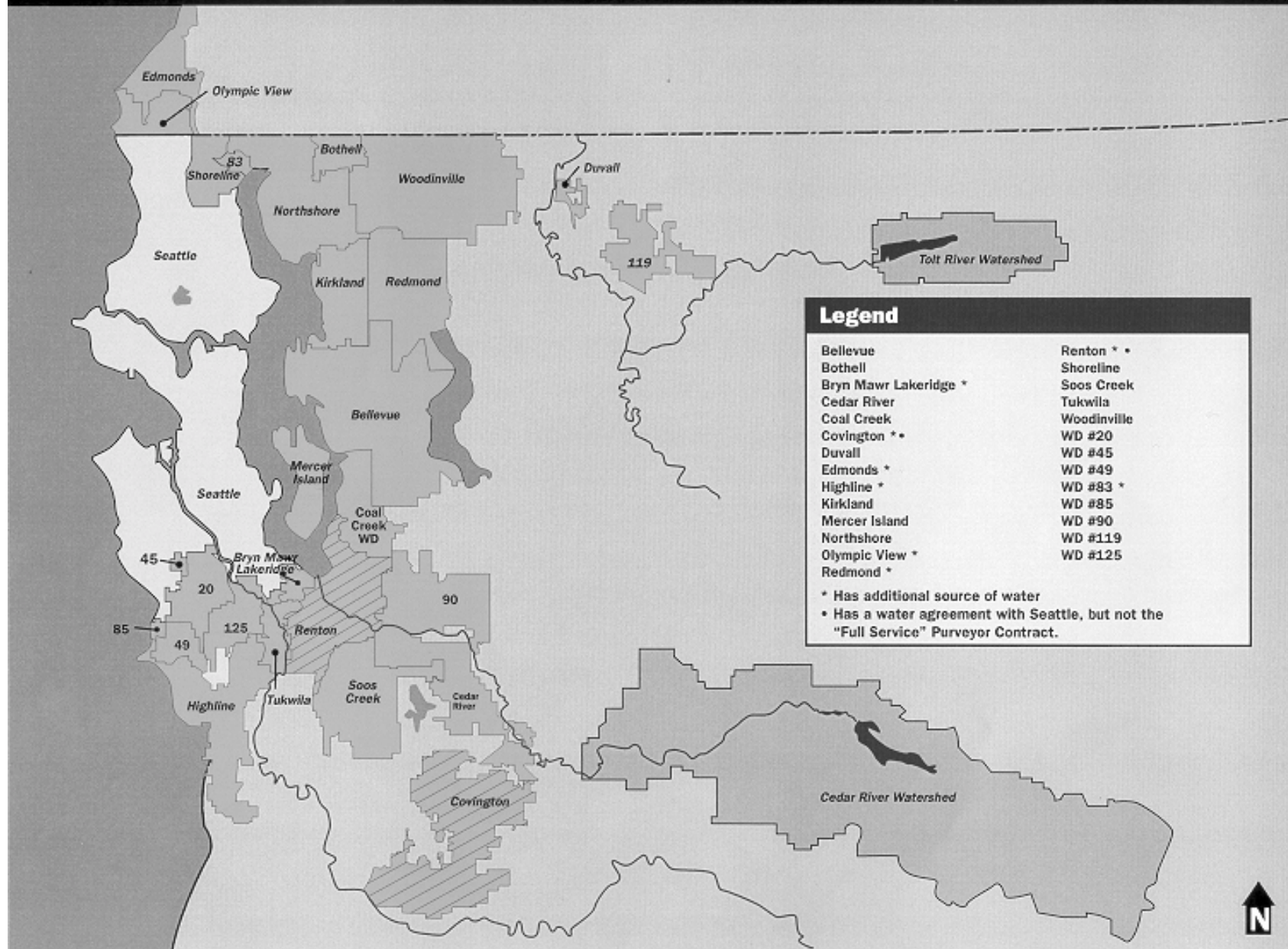


FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency. The Bonds are offered for delivery by the Purchaser, when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, on or about November 20, 2001.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.*

**Dated: October 31, 2001**

## Jurisdictions buying water from Seattle



## **The City of Seattle**

### **City Officials and Consultants**

#### **Mayor and Council**

Paul Schell	Mayor
Margaret Pageler	President, City Council
Jim Compton	Council Member
Richard Conlin	Council Member
Jan Drago	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Judy Nicastro	Council Member
Peter Steinbrueck	Council Member
Heidi Wills	Council Member

#### **City Administration**

Dwight D. Dively	Director of Finance
Mark Sidran	City Attorney

#### **Seattle Public Utilities**

Diana Gale	Managing Director
Nick Pealy	Finance and Administration Branch Executive
Patricia Colson	Customer Service Branch Executive
Scott Haskins	Resource Management Branch Executive
Thomas J. Tanner	Engineering Services Branch Executive
Vernon R. Connally	Acting Field Operations Branch Executive

#### **Financial Advisor**

Seattle-Northwest Securities Corporation  
Seattle, Washington

#### **Bond Counsel**

Foster Pepper & Shefelman PLLC  
Seattle, Washington

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*No dealer, broker, salesperson, or any other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement.*

*The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.*

## Table of Contents

	<u>Page</u>
DESCRIPTION OF THE BONDS.....	1
Registration and Denomination.....	1
Redemption of Bonds.....	1
Open Market Purchase.....	2
Book-Entry Transfer System.....	2
Refunding or Defeasance of Bonds .....	2
USE OF PROCEEDS .....	3
Sources and Uses of Funds.....	3
SECURITY FOR THE BONDS .....	3
Pledge of Net Revenue .....	3
Reserve Subaccount.....	3
Outstanding Bonds.....	4
Other Covenants .....	5
Separate Utility Systems .....	5
Combined Utility Systems .....	5
DEBT SERVICE REQUIREMENTS .....	5
SEATTLE PUBLIC UTILITIES .....	7
Administrative Structure .....	7
Management .....	7
Employee Relations.....	8
WATER SYSTEM.....	8
General .....	8
Comprehensive Planning .....	10
Water Supply.....	10
Future Water Supply and Conservation.....	10
Endangered Species Act.....	11
Transmission Facilities .....	13
Storage and Distribution.....	13
Seismic Reliability .....	14
Water Quality.....	14
Watershed Management Policies .....	15
Purveyor Contracts.....	16
Major Retail Water Users .....	17
Water Rates .....	17
Capital Improvement Program.....	19
Financial Policies .....	21
Financial Performance.....	21
Water System Historical Operating Results.....	22
Water System Projected Operating Results.....	24
THE CITY OF SEATTLE.....	25
Municipal Government.....	25
Financial Management.....	25
Risk Management.....	26
Pension System.....	26
Labor Relations.....	26
DEMOGRAPHIC AND ECONOMIC INFORMATION.....	27
Population.....	27
Per Capita Income.....	27
Building Permit Value .....	28
Industry and Employment .....	29
Retail Activity .....	31
Other Issues .....	31
INITIATIVE AND REFERENDUM .....	31
State Initiatives.....	31
City Initiatives .....	32
LEGAL AND TAX INFORMATION.....	32
Litigation .....	32
Approval of Counsel .....	32
Tax Exemption.....	32
Certain Other Federal Tax Consequences .....	33
Continuing Disclosure Undertaking.....	34
OTHER BOND INFORMATION .....	36
Municipal Bond Insurance .....	36
Ratings on the Bonds .....	37
Purchaser of the Bonds .....	37
Official Statement.....	37
Ordinance.....	Appendix A
Form of Bond Counsel Opinion.....	Appendix B
2000 Audited Financial Statements of the Water System.....	Appendix C
Book Entry Transfer System.....	Appendix D
Certain Information Regarding Reserve Insurance.....	Appendix E
Specimen Municipal Bond New Issue Insurance Policy .....	Appendix F

# **OFFICIAL STATEMENT**

**\$52,525,000**

## **The City of Seattle, Washington Water System Revenue Bonds, 2001**

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), the City’s Water System Revenue Bonds, 2001 (the “Bonds”), Seattle Public Utilities (“SPU”), and the City’s water system, referred to in the ordinance authorizing the issuance of the Bonds as the “Municipal Water System” (the “Water System”), in connection with the offering and sale of the Bonds.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds. The Bonds are to be issued pursuant to chapter 35.92 Revised Code of Washington (“RCW”), the Seattle City Charter, Ordinance 120547, passed by the City Council on October 15, 2001 (the “Ordinance”), and Resolution 30419, adopted on October 31, 2001 (the “Resolution”).

Appendix A to this Official Statement is a copy of the Ordinance. Appendix B is the form of approving legal opinion of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Water System’s audited 2000 financial statements. Appendix D is a description of DTC procedures with respect to book-entry bonds. Appendix E provides language regarding the policy of Reserve Insurance that satisfies the Reserve Requirement, and Appendix F is a copy of the specimen Municipal Bond New Issue Insurance Policy. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the Ordinance and in the Resolution.

### **DESCRIPTION OF THE BONDS**

#### **Registration and Denomination**

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede and Co. as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated November 1, 2001. The Bonds will mature on the dates and in the amounts and will bear interest (payable semiannually on each May 1 and November 1, beginning May 1, 2002) at the rates set forth on the cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal of and premium, if any, and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York, and its co-fiscal agency, Wells Fargo Bank N.A., Seattle, Washington) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Description of the Bonds—Book-Entry Transfer System” and Appendix D.

#### **Redemption of Bonds**

*Optional Redemption.* The Bonds maturing on or before November 1, 2011, are not subject to redemption prior to maturity. The Bonds maturing on or after November 1, 2012, are subject to redemption prior to maturity at the option of the City on and after November 1, 2011, as a whole or in part at any time (maturities to be selected by the City, and within a maturity by lot in such manner as the Bond Registrar may

determine and, so long as the Bonds are held in book-entry form, in accordance with the procedures established by the securities depository) at par plus accrued interest.

***Mandatory Redemption.*** If not previously redeemed as described above, the Term Bonds will be called for redemption by lot (or in such other manner as the Bond Registrar shall determine) at a price of par, plus accrued interest on the date of redemption, on November 1 in the years and amounts as follows:

<b>2026 Term Bonds</b>		<b>2031 Term Bonds</b>	
<b>Years</b>	<b>Amounts</b>	<b>Years</b>	<b>Amounts</b>
2022	\$ 2,175,000	2027	\$ 2,785,000
2023	2,280,000	2028	2,925,000
2024	2,400,000	2029	3,075,000
2025	2,520,000	2030	3,235,000
2026*	2,650,000	2031*	3,400,000

\* Final maturity.

***Notice of Redemption.*** Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See “Description of the Bonds—Book-Entry Transfer System.”

### **Open Market Purchase**

The City reserves the right to purchase any of the Bonds on the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

### **Book-Entry Transfer System**

***Book-Entry Bonds.*** DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. See Appendix D for additional information. *As indicated therein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

***Termination of Book-Entry Transfer System.*** If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds will be transferable as provided in the Ordinance.

### **Refunding or Defeasance of Bonds**

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the “Trust Account”), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and in the revenues and the funds and accounts pledged to the payment of the Defeased

Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—Ordinance.

## **USE OF PROCEEDS**

The proceeds of the Bonds will provide funds (i) for certain capital improvements and additions to, and conservation programs for, the Water System (the “Plan of Additions”), (ii) to meet the Reserve Requirement for the Bonds and (iii) to pay the issuance costs of the Bonds.

### **Sources and Uses of Funds**

The proceeds of the Bonds (less accrued interest) will be applied as follows:

#### Sources of Funds

Par Amount of Bonds	\$ 52,525,000
Net Premium	<u>584,459</u>
Total Sources of Funds	<u>\$ 53,109,459</u>

#### Uses of Funds

Project Fund Deposit	\$ 52,399,397
Underwriter’s Discount, Costs of Issuance and Reserve Insurance Premium	<u>710,062</u>
Total Uses of Funds	<u>\$ 53,109,459</u>

## **SECURITY FOR THE BONDS**

### **Pledge of Net Revenue**

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code). This pledge constitutes a lien and charge upon the Net Revenue on a parity with that of other Parity Bonds and superior to any other liens or charges.

**The Bonds do not constitute general obligations of the City, the State of Washington (the “State”) or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.**

The Water Revenue Bond Account (the “Bond Account”) has been created in the Water Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are payable, all utility local improvement district (“ULID”) assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Ordinance.

### **Reserve Subaccount**

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. So long as any Parity Bonds remain outstanding, the City will maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or 125 percent of Average Annual Debt Service on the Parity Bonds (the “Reserve Requirement”). Under the Ordinance, the City must fund the

increase in the Reserve Requirement due to the issuance of the Bonds from (i) Bond proceeds, (ii) Net Revenue in five annual installments or (iii) Reserve Insurance. The City intends to satisfy the Reserve Requirement upon the issuance of the Bonds through Reserve Insurance. See Appendix A—Ordinance. See also Appendix E—Certain Information Regarding Reserve Insurance.

### **Outstanding Bonds**

*Outstanding Parity Bonds.* Outstanding obligations (other than the Bonds) payable from the Bond Account are the City's \$256,255,000 Water System and Refunding Revenue Bonds, 1993, issued pursuant to Ordinance 116705 (the "1993 Bonds"), \$53,000,000 Water System Revenue Bonds, 1997, issued pursuant to Ordinance 118512 (the "1997 Bonds"), \$80,000,000 Water System Revenue Bonds, 1998, issued pursuant to Ordinance 118973 (the "1998 Bonds"), \$100,000,000 Water System Revenue Bonds, 1999, issued pursuant to Ordinance 119457 (the "1999A Bonds"), and \$110,000,000 Water System Revenue Bonds, 1999B, issued pursuant to Ordinance 119649 (the "1999B Bonds"). As of October 1, 2001, \$521,905,000 principal amount of the 1993 Bonds, the 1997 Bonds, the 1998 Bonds, the 1999A Bonds, and the 1999B Bonds (collectively, the "Outstanding Parity Bonds") was outstanding. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the "Parity Bonds."

*Subordinate Lien Bonds.* The City currently has Water System Adjustable Rate Revenue Bonds, 1995, outstanding in the aggregate principal amount of \$42,900,000 (the "Subordinate Lien Bonds"). The City has reserved the right to convert the Subordinate Lien Bonds to Parity Bonds, at its discretion, upon satisfaction of the conditions for the issuance of Future Parity Bonds under the ordinances authorizing the Parity Bonds. See "Water System—Capital Improvement Program." The City also has authorized the issuance of additional subordinate lien bonds. See "Additional Obligations—Future Subordinate Lien Bonds."

### **Additional Obligations**

*Future Parity Bonds.* Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds:

- (i) a certificate from the Director of Finance (the "Parity Certificate") showing that during any 12 consecutive months out of the preceding 24 months Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the "Coverage Requirement") for all Parity Bonds plus the Future Parity Bonds to be issued, or
- (ii) a certificate of the Director of Finance and the Director of SPU stating that, in their opinion, the Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued or (b) the date on which substantially all the facilities financed with those Future Parity Bonds are expected to commence operations.

See Appendix A—Ordinance.

*Future Subordinate Lien Bonds.* In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds. By Ordinance 120548 passed on October 15, 2001, the City has authorized the issuance of not to exceed \$65 million in additional subordinate lien bonds in the first quarter of 2002.

*Parity Payment Agreements.* The City may enter into Parity Payment Agreements secured by a pledge and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Ordinance.

*Contract Resource Obligations.* The City may enter into Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service and may determine that all payments under those Contract Resource Obligations (including payments prior to the time



such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Ordinance.

#### **Rate Covenant**

The City has covenanted to establish, maintain and collect rates and charges for water service which will produce Adjusted Net Revenue of the Water System available for debt service on each calendar year at least equal to the Coverage Requirement. See Appendix A—Ordinance.

*Rate Stabilization Account.* The City may deposit Gross Revenue and any other money received by the Water System into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Water System. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. The balance of the Rate Stabilization Account as of December 31, 2000, was \$4,252,000. See Appendix A—Ordinance.

#### **Other Covenants**

The City has entered into other covenants, including those with respect to (i) maintenance of the Water System, (ii) sale of the Water System and (iii) preservation of tax exemption for interest on the Bonds. See Appendix A—Ordinance.

#### **Separate Utility Systems**

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of the separate system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Water System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Ordinance.

#### **Combined Utility Systems**

The City has reserved the right to combine the Water System with other City utility systems upon the maturity, redemption or defeasance of all of the then outstanding 1993 Bonds. See Appendix A—Ordinance.

### **DEBT SERVICE REQUIREMENTS**

The following table shows the debt service to be paid from the Net Revenue of the Water System.

**Water System Revenue Bonds  
Debt Service Requirements**

Total		Parity Bonds								Total	
Subordinate Lien								The Bonds		Parity Bonds	Total
Date	Debt Service	1993 Bonds	1997 Bonds	1998 Bonds	1999A Bonds	1999B Bonds	Principal	Interest	Debt Service	Debt Service	
2001	\$ 2,849,000	\$ 20,852,460	\$ 3,748,078	\$ 5,277,300	\$ 6,656,519	\$ 8,005,850	\$ 0	\$ 0	\$ 44,540,206	\$ 47,389,206	
2002	2,805,000	20,855,643	3,740,671	5,272,725	6,654,819	7,994,600	0	2,597,588	47,116,045	49,921,045	
2003	2,761,000	20,898,085	3,730,846	5,270,450	6,649,636	7,979,600	0	2,597,588	47,126,205	49,887,205	
2004	2,816,000	20,859,518	3,718,603	5,270,250	6,650,504	7,970,850	0	2,597,588	47,067,311	49,883,311	
2005	2,768,000	15,805,640	3,708,940	5,258,750	6,651,754	7,962,850	1,050,000	2,597,588	43,035,521	45,803,521	
2006	2,819,000	14,741,775	3,701,590	5,253,750	6,646,954	7,955,350	1,085,000	2,550,338	41,934,756	44,753,756	
2007	2,767,000	11,733,388	3,696,284	5,249,750	6,645,929	7,953,100	1,125,000	2,501,513	38,904,963	41,671,963	
2008	2,814,000	12,001,950	3,692,753	5,246,500	6,643,649	7,950,600	1,165,000	2,450,888	39,151,339	41,965,339	
2009	2,758,000	11,998,206	3,685,728	5,243,750	6,633,413	7,947,600	1,210,000	2,395,550	39,114,246	41,872,246	
2010	2,801,000	12,009,225	3,680,209	5,241,250	6,620,563	7,936,475	1,260,000	2,338,075	39,085,796	41,886,796	
2011	2,840,000	12,013,450	3,675,928	5,243,750	6,606,806	7,928,475	1,310,000	2,278,225	39,056,634	41,896,634	
2012	2,776,000	12,013,563	3,672,228	5,245,750	6,596,750	7,923,050	1,365,000	2,216,000	39,032,340	41,808,340	
2013	2,811,000	12,028,188	3,672,578	5,247,000	6,585,000	7,912,450	1,425,000	2,147,750	39,017,965	41,828,965	
2014	2,842,000	12,031,088	3,666,258	5,252,250	6,581,031	7,902,938	1,490,000	2,076,500	39,000,064	41,842,064	
2015	2,770,000	12,041,163	3,659,898	5,261,000	6,574,319	7,898,938	1,555,000	2,002,000	38,992,316	41,762,316	
2016	2,797,000	12,042,175	3,658,218	5,267,750	6,564,600	7,889,588	1,630,000	1,924,250	38,976,580	41,773,580	
2017	2,820,000	12,013,850	3,655,658	5,277,250	6,561,350	7,884,600	1,705,000	1,842,750	38,940,458	41,760,458	
2018	2,839,000	12,000,225	3,651,938	5,284,000	6,558,913	7,883,113	1,790,000	1,757,500	38,925,688	41,764,688	
2019	2,854,000	12,025,875	3,646,219	5,297,750	6,556,763	7,879,263	1,875,000	1,668,000	38,948,869	41,802,869	
2020	2,766,000	12,122,594	3,643,750	5,307,750	6,559,244	7,877,475	1,970,000	1,574,250	39,055,063	41,821,063	
2021	2,777,000	10,375,250	3,643,969	5,318,750	6,560,700	7,876,888	2,070,000	1,475,750	37,321,306	40,098,306	
2022	2,784,000	10,478,000	3,641,313	5,330,250	6,560,606	7,876,638	2,175,000	1,372,250	37,434,056	40,218,056	
2023	2,787,000	10,240,825	3,640,500	5,341,750	6,558,438	7,875,863	2,280,000	1,263,500	37,200,875	39,987,875	
2024	2,786,000	0	3,640,969	5,352,750	6,563,406	7,878,700	2,400,000	1,149,500	26,985,325	29,771,325	
2025	2,781,000	0	3,637,156	5,367,750	6,561,503	7,870,100	2,520,000	1,029,500	26,986,009	29,767,009	
2026	0	0	3,638,781	5,381,000	6,556,897	7,862,000	2,650,000	903,500	26,992,178	26,992,178	
2027	0	0	0	5,397,000	6,556,703	7,853,200	2,785,000	771,000	23,362,903	23,362,903	
2028	0	0	0	0	6,550,116	7,842,500	2,925,000	631,750	17,949,366	17,949,366	
2029	0	0	0	0	6,546,328	7,838,700	3,075,000	485,500	17,945,528	17,945,528	
2030	0	0	0	0	0	0	3,235,000	331,750	3,566,750	3,566,750	
2031	0	0	0	0	0	0	3,400,000	170,000	3,570,000	3,570,000	
	\$ 69,988,000	\$ 313,182,133	\$ 95,549,056	\$ 142,757,975	\$ 191,213,210	\$ 229,411,350	\$ 52,525,000	\$ 51,697,938	\$ 1,076,336,661	\$ 1,146,324,661	

## SEATTLE PUBLIC UTILITIES

### Administrative Structure

Seattle's water, drainage, wastewater, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. Within SPU, there are four separate funds: the Water Fund, the Drainage and Wastewater Fund, the Solid Waste Fund, and the Engineering Services Fund. The City has reserved the right to combine the Water Fund with other City utility funds upon the maturity, redemption or defeasance of all of the then-outstanding 1993 Bonds.

### Management

SPU consists of the Managing Director's Office and five Executive Branches, as follows:

- (i) **Managing Director's Office:** provides overall management and policy direction, and coordinates internal and external communication.
- (ii) **Finance and Administration Branch:** provides financial, human resources and information technology services to support SPU.
- (iii) **Customer Service Branch:** operates the call and walk-in centers for SPU and Seattle City Light customers, and manages SPU's meter reading, customer billing and audit functions.
- (iv) **Resource Management Branch:** develops SPU's long term resource plans; promotes environmental stewardship of natural resources; manages SPU's capital improvement program, watersheds and drinking water quality and supply programs; and coordinates SPU's community and environmental outreach.
- (v) **Engineering Services Branch:** provides design, project management, construction management, and other engineering support services to SPU; provides engineering services to other City departments and several regional agencies on a compensated basis.
- (vi) **Field Operations Branch:** operates, maintains, repairs, and constructs the City's water, sewer, drainage, and solid waste facilities and infrastructure; maintains warehousing facilities for SPU and Seattle Transportation; and manages SPU's Emergency Management and Response functions.

SPU is headed by a Managing Director, who administers SPU in accordance with policies established by the Mayor of Seattle (the "Mayor") and the City Council. Brief biographies of the members of SPU's Executive Management Team follow:

*Diana Gale, Managing Director.* Ms. Gale has been Managing Director of SPU since it was created in 1997. Prior to her appointment, she was the Superintendent of the Seattle Water Department, a position she had held since 1995. She previously served as the City's Director of the Office of Management and Budget (now the City's Budget Office), the Director of the Solid Waste Utility, and the Executive Director of the Legislative Department. She is Vice Chair of a national environmental task force for Public Technology, Inc. She also is a member of the National Drinking Water Advisory Council and serves on the Washington State Drinking Water Advisory Committee. Ms. Gale earned her Bachelor of Arts degree in history and political science from Wellesley College and her master's and doctorate degrees in urban planning from the University of Washington.

*Nick Pealy, Finance and Administration Branch Executive.* Mr. Pealy joined SPU in 1997 as Director of Finance and was promoted to his current position in 2001. He has worked for the City since 1987 as an economist for the City Council and as a rates supervisor and finance director for the Solid Waste Utility. He holds a Bachelor of Arts degree in political science and mathematics from Whitman College and a master's degree in economics from the University of Washington.

*Patricia Colson, Customer Service Branch Executive.* Ms. Colson has served as Branch Executive of Customer Service of SPU since it was created in 1997. Prior to her appointment she served as the Water Department's Account Services Director. Before coming to the City, Ms. Colson managed a division of the State

Department of Agriculture. Ms. Colson served on the faculty of Shoreline Community College, and has taught high school. She holds baccalaureate and master's degrees from the University of Washington.

*Scott Haskins, Resource Management Branch Executive.* Mr. Haskins has served as Branch Executive of SPU's Resource Management since it was created in 1997. Prior to this appointment, he served as the Water Department's Deputy Superintendent, overseeing management, financial and administrative functions for the utility. He also has served as Finance Director for the Water Department, and has provided management oversight for two large water design-build-operate projects. He is the past president of the Seattle Management Association and Chair of the West Coast Water Utilities Benchmarking Group. He holds a Bachelor of Arts degree in political science and a master's degree in public administration from the University of Washington.

*Thomas J. Tanner, Engineering Services Branch Executive.* Mr. Tanner was appointed Engineering Services Branch Executive in 1998, and oversees engineering, design, project management, and construction management for SPU, as well as construction contractor management functions for Seattle City Light and the Seattle Transportation Department. Mr. Tanner has held numerous leadership positions in public works organizations, including Public Works Director for the Navy Public Works in Norfolk, Virginia; Public Works Director for Puget Sound Naval Shipyard; Chief Engineer for Navy facilities and utilities in Washington, Oregon, Montana, and Alaska; and Director of the Navy's Civil Engineering School in Port Hueneme, California. Mr. Tanner holds a Bachelor of Science in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

*Vernon R. Connally, Acting Field Operations Branch Executive.* Mr. Connally is currently acting as Field Operations Branch Executive and oversees drainage and wastewater, solid waste and water operations for SPU. Prior to this acting appointment he served as Director of Drainage and Wastewater Field Operations, Director of Solid Waste Field Operations and acting director of Solid Waste Utility's Customer Service and Community Programs Unit.

## **Employee Relations**

SPU has approximately 1,200 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System."

Approximately 75 percent of SPU employees are represented by unions, including (i) the Joint Crafts Council which includes the International Association of Machinists and Aerospace Workers District Lodges 79 and 289, the International Brotherhood of Electrical Workers Local 46, the Painters District Council 5, Public Service and Industrial Employees Local 1239, and the International Union of Operating Engineers Local 302; (ii) the Washington State Council of County and City Employees Local 21; (iii) the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry Local 32; (iv) the Pacific Northwest District Council of Carpenters; and (v) the International Federation of Professional and Technical Engineers, which represents the greatest number of SPU employees. The City has begun negotiations with its major unions on the terms of new contracts to replace the current contracts, which expire on December 31, 2001. SPU has established a Joint Labor Management Committee to discuss potential labor issues and anticipates no serious problems in maintaining good labor relations.

## **WATER SYSTEM**

### **General**

The Water System was established in 1890 with the City's purchase of the Spring Hill Water Company and later was expanded by the development of the Cedar River as a source of water supply for the City. The Water System currently includes two watershed sources of supply east of the City and a small aquifer south of the City, as well as approximately 156 miles of supply mains and 460 million gallons ("MG") of storage

capacity in transmission and distribution reservoirs. The Water System provides direct service to a population of approximately 619,000 and indirect service, through wholesale sales of water to other water distribution utilities outside the direct service area, to an additional population of approximately 696,000. The service area includes Seattle and portions of unincorporated King County served directly (the “direct service area”), and also areas served by 27 suburban water districts, municipalities and non-profit water associations (the “Purveyors”) in the County. The Purveyors purchase water from the City under long-term wholesale contracts for distribution to their own customers. The map on the inside front cover shows the service area and the locations of the Purveyors. Summary statistics for the Water System follow.

#### **Water System Operating Statistics**

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Population Served</b>					
Direct Service	598,818	603,861	608,947	614,076	619,247
Purveyors	667,303	674,180	682,592	689,465	696,338
<b>Total Population Served</b>	<b>1,266,121</b>	<b>1,278,041</b>	<b>1,291,539</b>	<b>1,303,541</b>	<b>1,315,585</b>
<b>Water Sales Revenues (\$000)</b>					
Direct Service	48,823	50,448	55,659	58,267	71,060
Purveyors	18,885	20,248	25,843	27,114	33,121
<b>Total Water Sales Revenues</b>	<b>67,708</b>	<b>70,696</b>	<b>81,502</b>	<b>85,381</b>	<b>104,181</b>
<b>Billed Water Use (MG)</b>					
Direct Service	25,830	25,261	25,987	24,680	25,119
Purveyors	24,065	23,540	24,792	24,053	24,303
<b>Total Billed Water Use</b>	<b>49,895</b>	<b>48,801</b>	<b>50,779</b>	<b>48,733</b>	<b>49,422</b>
<b>Operating Costs per MG (\$)</b>	<b>1,141</b>	<b>1,150</b>	<b>1,376</b>	<b>1,516</b>	<b>1,484</b>
<b>Gallons Used per Day per Capita</b>	<b>108</b>	<b>105</b>	<b>108</b>	<b>102</b>	<b>103</b>
<b>Direct Service Meters in Use</b>	<b>174,987</b>	<b>175,297</b>	<b>175,888</b>	<b>176,513</b>	<b>177,468</b>
<b>Number of New Water Services Installed</b>	<b>315</b>	<b>310</b>	<b>591</b>	<b>625</b>	<b>955</b>

## **Comprehensive Planning**

The Seattle Comprehensive Water System Plan (the “Water Plan”) is the 20-year comprehensive plan for the Water System. The most recent update of the Water Plan was approved by the State Department of Health (“DOH”) in April 2001.

This update of the Water Plan carries over the policies developed in the previous Water Plan and provides specifics on the planning and operation of the Water System for the next six years in the areas of water quality, maintenance and rehabilitation, water conservation, and supply. The update identifies the current service area and water demand forecast for which the Water System is planning. It also outlines the Water System’s effort to plan for replacing its aging infrastructure.

## **Water Supply**

The Water System’s two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of a total of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 84,000 acre feet in the Cedar River Watershed and 56,000 acre feet in the Tolt River Watershed.

The City has diverted water from the Cedar River for use by the Water System since 1902. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements and the effect of the City’s diversion dam in blocking passage of anadromous fish all have been the subject of intermittent discussions among the City, the State and the Muckleshoot Indian Tribe.

The City’s water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. These water rights remain in permit status. In 1989, the Federal Energy Regulatory Commission granted a license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits. The project was completed in 1996, and in 1997, Seattle City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

On an aquifer located south of Seattle and immediately north of the Seattle-Tacoma International Airport, the City has developed three supply wells with a combined capacity of 10 million gallons per day (“MGD”) to augment the City’s surface water supply. The feasibility of recharging the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from the State of Washington Department of Ecology (“DOE”). The City has applied for permits which can be converted into water rights. DOE currently is in the process of finalizing a Report of Examination on the application, the step prior to issuing a water right.

In addition to the surface water supply diversions and the aquifer, the City has two barge-mounted pumping plants on Chester Morse Lake for use in the event of droughts. Each plant has the capacity to pump up to 120 MGD of high quality water from below the lowest natural outlet of the lake.

The administration of water rights in Washington is a matter of ongoing development and debate in the State Legislature and the courts.

## **Future Water Supply and Conservation**

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Firm yield was increased in 2001 from 160 MGD to 171 MGD with the completion of a new filtration plant on the Tolt River, which removes some of the restriction on reservoir drawdowns. Demand in the service area averaged 148 MGD in 2000. Providing sufficient water during the summer, when demand is

40 percent higher than during the winter, is the major challenge, as the Water System depends on seasonal storage to meet that demand.

Current forecasts of demand and supply suggest that a new primary source of supply will not be needed until sometime after 2020. While population growth in SPU's water service area is forecast to exceed one percent per year, water demand is expected to increase much more slowly due to conservation. Over the past decade, conservation has been encouraged through higher marginal rates in the summer peak season, aggressive water conservation programs, new state plumbing codes specifying efficiency standards for water fixtures, and improved system operations. As a result, annual average consumption declined by more than 20 MGD from 170 MGD in 1990 to 148 MGD in 2000.

In 1999 the City launched the One Percent Conservation Program that was designed to maintain demand for water at a steady level for the next ten years, thus offsetting the effects of population growth on water demand. The costs of the One Percent Conservation Program, approximately \$4.5 million per year, are included in SPU's budget and financial projections. See "Capital Improvement Program—Water Supply." In September 2001, during a citizens' initiative campaign, the City committed to a more aggressive conservation program designed to reduce the aggregate level of demand for water by 12 MGD by 2010. The City also committed to the establishment of a water trust program to benefit the environment. Water from this water trust would be used to increase flows in fish-bearing rivers that supply Seattle's water or in the region's creeks and rivers to replace water diverted by other water districts. As a result, the initiative will not appear on the ballot. The incremental costs of the recently adopted water trust program have not yet been estimated or incorporated into financial projections. Funding for the water trust program likely will come in part from water rates levied on residences and businesses that use large amounts of water.

The One Percent Conservation Program is an example of SPU's ongoing evaluation of new sources of supply and conservation programs to meet the projected growth within the existing service area, to provide a hedge against potential reduction of water diversions to support environmental and related objectives and to serve water agencies within the region that are not Purveyors currently but might be added to the Water System. In addition to new conservation programs, additional water resources have been identified, including:

- (i) partnering with the City of Tacoma on the Second Supply Project (the "Tacoma SSP"),
- (ii) development of the Snoqualmie River Valley/North Bend Aquifer,
- (iii) installation of a permanent pumping plant at Chester Morse Lake,
- (iv) drawdown of Lake Youngs (which stores treated water from the Cedar River) for water supply,
- (v) additional drawdowns of the reservoir on the South Fork of the Tolt River, and
- (vi) development of a new source of supply at the North Fork of the Tolt River.

The Tacoma SSP would allow the region to utilize fully Tacoma's existing water rights by connecting the water transmission systems of Seattle, Tacoma and certain south King County utilities and would provide additional water to Tacoma and the other participants in the project. Under a Project Agreement among Seattle, Tacoma, the City of Kent, the Covington Water District, and the Lakehaven Utility District, the project would be developed and operated by the Water Division of the City of Tacoma's Department of Public Utilities. The total project cost is estimated at \$250 million; SPU would pay one-third of the project cost in exchange for approximately one-third of the capacity of the project, or approximately 14 MGD. The Project Agreement is expected to be signed before the end of 2001, and SPU would receive water from the project no later than 2006.

### **Endangered Species Act**

In 1999, the National Marine Fisheries Service ("NMFS") listed the Puget Sound chinook salmon, which migrate through waterways within and adjacent to the City, as a "threatened species" under the Endangered Species Act (the "ESA"). NMFS subsequently finalized a "4(d) rule" extending the ESA's prohibition against "take" to Puget Sound chinook salmon and its critical habitat. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan.

Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into a Habitat Conservation Plan (the “HCP”) with the U.S. Fish and Wildlife Service and NMFS. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about \$93 million to improve conditions for fish and wildlife within the Cedar River watershed, including expenditure of about \$25 million over the next six years for capital improvements. See “Watershed Management Policies” and “Capital Improvement Program.” While these measures include commitments to instream flow levels, the Water System’s estimated firm yield would not be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved in 2000, protects the City from ESA liability resulting from potential impacts of the Water System’s Cedar River operations on chinook salmon, bull trout and approximately 80 other species of anadromous fish known to be present and potentially affected. Litigation brought by the Muckleshoot Indian Tribe challenges the validity of the DOE’s action in executing the Instream Flow Agreement for the Cedar River, which is an ancillary agreement to the HCP. This litigation is not expected to affect the City’s firm yield from the Cedar River source.

The second major Water System supply is drawn from the South Fork of the Tolt River, using a dam which, unlike the one on the Cedar River, is situated above a natural fish barrier. Streamflow levels downstream from the dam are affected by dam operations and water diversions, with potential impacts on chinook salmon. The City, tribes and several federal agencies have entered into the 1988 Tolt River Settlement Agreement, which includes commitments for streamflows and habitat improvements that were intended to mitigate for impacts caused by the City’s water supply and power generation operations. The implications of the chinook listing for the Tolt River supply remain uncertain because, although other interested parties and agencies believe the flows are adequate for fish protection, NMFS has not made any determination as to their adequacy under the ESA. The City will attempt to resolve this uncertainty through one of the alternative mechanisms available under the ESA. At this point it is uncertain which mechanism will be used, how long it will take and whether additional mitigation will be required. However, it is anticipated that firm yield will not be affected.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

It is likely that other activities will be affected by the ESA. While facility construction and maintenance activities are under considerable environmental scrutiny, at a minimum there will be delays in permitting while federal, State and local agencies continue to sort out their respective regulatory roles. The extent to which additional costs will be incurred for mitigation specifically related to ESA is unknown.

To further manage legal risks, the City has invested in chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River and Green/Duwamish River. As a result, over the last two years it has assembled substantial data on chinook salmon and new scientific methods that provide the basis for development of best management practices (“BMPs”) in several key City activity areas, including most recently BMPs for water maintenance activities within road right-of-ways. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which are expected to result in fewer anticipated permit delays.

The City and SPU expect that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage and wastewater rates and general fund money, taxes or fees imposed by other local jurisdictions, and federal and State grants.



## Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line from the Tolt River ("Tolt 1") and a network of supply mains throughout the total service area. In all, there are approximately 153 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

In the late eighties, two segments of the Tolt 1 ruptured and subsequent inspection revealed the potential for future failures due to corrosion in the steel rods which form a spiral wrapping for the pipe. All but one mile of the weakened pipe has been rehabilitated or sliplined. The last mile will be rehabilitated by the end of 2001. In addition, for both reliability and new capacity, a new 25.3-mile transmission line ("Tolt 2") is being constructed that will begin at the Tolt source and run parallel to and interconnect with Tolt 1 at several locations. At the end of 2000, a total of 9.6 miles of the Tolt 2 pipeline had been completed and placed in service. An additional 8.4 miles are essentially completed and are expected to be commissioned no later than 2002.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins and six storage reservoirs. In addition, there are seven pumping stations with a total rated capacity of 100,250 gallons per minute ("GPM") The following table shows the hydraulic capacities of the primary transmission lines, the transmission regulating basins and storage facilities of the Water System.

### Capacity of Individual Components of the Transmission System

Facility	Capacity
Transmission Lines (MGD):	
Cedar River	275
Tolt River <sup>(1)</sup>	<u>120</u>
Total	395
Storage Facilities (MG):	
Lake Youngs (regulating basin) <sup>(2)</sup>	4,812
Tolt Regulating Basin <sup>(2)</sup>	312
Lake Forest Reservoir	60
Maple Leaf Reservoir	60
Eastside Reservoir	32
Riverton Heights Reservoir	20
Soos Reservoirs	<u>13</u>
Total	5,309

(1) Based on pipe that is currently in service or installed.

(2) Effective capacity under current operating guidelines is less than hydraulic capacity.

During the month of record maximum consumption, July 1985, the transmission pipelines delivered an average of 301 MGD.

## Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by nine reservoirs, built between 1901 and 1990, nine standpipes and seven elevated tanks with capacities as follows:

### Distribution Capacity (MGs)

Reservoirs	256
Standpipes	9
Elevated Tanks	<u>10</u>
Total	275

SPU operates under storage guidelines promulgated by DOH. These guidelines specify a minimum amount of distribution storage capacity for emergencies of 200 gallons per residential household equivalent. Existing storage in the direct service area as a whole significantly exceeds the minimum requirement; some hilltop communities have less storage available by gravity, but can be supplied from lower elevation reservoirs by pumping.

The distribution system consists of approximately 1,660 miles of predominantly cast iron and ductile iron pipe. Concrete and steel pipe have been employed also; the only asbestos cement pipe is in a distribution system in a City park. To assist in maintaining adequate pressure within the distribution system, there are 25 electric and hydraulic pumping stations with a total rated pumping capacity of 261.3 MGD.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, in the last ten years, peak daily consumption has averaged about 258 MG.

In the last decade, two studies have been conducted to evaluate leakage from the Water System. System-wide leakage is estimated at 3.1 MGD. Total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) are estimated at 10 to 12 MGD, or about seven percent of total water usage.

### **Seismic Reliability**

Since the late 1980's, several engineering evaluations have been made of the major parts of the Water System to assess the reliability of the Water System in the event of a major earthquake. The components reviewed include supply reservoirs, major pipelines, pumping stations, treatment plants, control centers, and distribution storage reservoirs (tank-type and embankment-type reservoirs). Analysis has included the effects of (i) a magnitude 7.5 earthquake centered under a facility and (ii) a magnitude 8.25 subduction earthquake within 95 miles of a facility. Overall, Water System facilities generally are expected to remain operational in the event of a major earthquake. Most of the tank-type reservoirs, both elevated tanks and standpipes, are predicted to sustain some damage and leakage.

Remedial work was initiated in 1993 as part of an overall seismic improvement program and is expected to be completed in 2007. A subsequent multi-year program to replace critical cast iron water mains with ductile iron pipe is planned. While the ultimate cost of the remedial work is uncertain, SPU believes that the projects and costs already included in the 2001-2006 Capital Improvement Program (the "CIP") represent the major portion of the costs of the identified remedial program.

Damage sustained to the Water System in the major earthquake that occurred in February of 2001 was relatively minor and loss of water service was limited to a few small neighborhood areas for less than a day.

### **Water Quality**

Water provided by the Water System is of high quality due to the protection of the Cedar and Tolt River Watersheds from contamination by development and unsupervised human activity. In addition, the three wells on the aquifer south of the City that provide a small portion of the City's water supply are deep and afford natural protection from contamination.

As an operator of a community water system, SPU must comply with the requirements of the Safe Drinking Water Act of 1974, as amended. To help ensure continued compliance with drinking water standards and to maintain water quality in the distribution system, SPU operates a water quality laboratory certified by DOH for bacteriological and chemical analyses.

Disinfection with chlorine currently is the primary treatment used on the Cedar River water supply to meet public water supply disinfection requirements of the U.S. Environmental Protection Agency ("EPA") and DOH. The Tolt River supply is filtered and ozonated in a 120 MGD treatment facility completed in late 2000 and accepted by DOH in early 2001. In addition to disinfection agents, lime and soda ash (for

corrosion control) and fluoride (for the prevention of dental caries) are added to the water supply. Water quality regulations of particular significance are discussed below.

*Lead and Copper.* Lead ingested by humans is a public health concern. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and from brass fixtures. SPU recognizes this as a potential problem and has been treating the water to reduce its corrosiveness since 1983. There is no lead or copper in the source water, and no lead service lines have been installed in the City's distribution system. Seattle was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of its water have been successful in reducing lead levels at customer taps. Some customers in the service area, however, have lead concentrations in their tap water that exceed EPA's threshold of 15 parts per billion. In response, the City is conducting a public education program to inform consumers of the risks of lead exposure and methods to reduce such exposure. As part of a Bilateral Compliance Agreement between SPU and DOH, SPU has optimized its treatment processes on the Tolt River to reduce the corrosiveness of the water.

*Surface Water Treatment.* The Surface Water Treatment Rule ("SWTR"), which was finalized by EPA in 1989, established filtration and disinfection requirements for water systems such as the City's that use surface water sources. It also established criteria under which such a water system can avoid filtration. These criteria include (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. SPU has consistently met all the criteria except the one for fecal coliform densities in raw water prior to treatment. As a result of exceeding this criterion on the Cedar River source, SPU has entered into an Agreed Order with DOH requiring SPU to install ozonation and ultraviolet disinfection on the outlet of Lake Youngs. These additional treatment steps are intended to address the requirements of surface water treatment rules. The new Cedar River treatment facility is expected to be on line in 2004.

*Disinfection Byproducts.* The use of disinfectants to provide microbial protection of water can result in the formation of disinfection byproducts ("DBPs"). SPU expects to be able to meet the short- and long-term federal DBP regulations on the Tolt River system as a result of the improved treatment provided by the Tolt Treatment Facility's filtration process. DBP levels on the Cedar River are generally acceptable under the current treatment processes.

*Open Reservoirs.* The 1994 revisions to DOH drinking water regulations required the development of a plan to cover all open distribution reservoirs. The Water System developed a Reservoir Covering Plan, which DOH approved, and SPU is implementing the plan by beginning to cover its reservoirs.. Under the plan, all nine open reservoirs will be covered or otherwise replaced or relocated by 2020. These projects are being coordinated with other reservoir-related projects, as well as other major treatment or transmission improvements.

*Arsenic and Radon.* EPA is currently developing new regulations to address permissible levels of arsenic and radon. If promulgated, these regulations may affect SPU's use of the seasonal groundwater wells near the Seattle-Tacoma International Airport, but are not expected to impact other aspects of the Water System.

### **Watershed Management Policies**

SPU carries out programs of watershed resource management, fire protection and the protection of water resources within the Cedar River and South Fork of the Tolt River Watersheds. Seattle City Light also operates a small hydroelectric plant in the Cedar River Watershed.

Land development impacts and more stringent regulatory standards have made ownership of the property in the watersheds an increasingly important element of SPU's overall strategy to preserve and enhance water quality. Following major land exchanges in 1996 and 1997, the City acquired ownership of more than 99 percent of the 141-square-mile Cedar River Watershed and increased its ownership of the 21-square-mile South Fork of the Tolt River Watershed to 70 percent. The U.S. Forest Service, which owns the remaining 30 percent of the South Fork of the Tolt River Watershed, is essentially inactive on that property and has no current plans to harvest timber there. Within the next five years, the City expects to have prepared a

comprehensive land management plan for its holdings in the Tolt River Watershed to address issues related to the long-term management of these lands for water quality and fish and wildlife habitat. See “Water Supply.”

Consolidated ownership of the Cedar River basin has resulted in strengthening forest management, wildlife and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. Prior to 2000, management policies for the Cedar River Watershed provided for selective commercial harvest of second growth timber, with revenues generated from timber sales dedicated to the acquisition of lands and habitat within the watershed. Such harvest activities generated revenues of approximately \$1 million per year. The timber harvest program and related policies were re-evaluated during the development of the Cedar River Watershed HCP. In response to public sentiment, the City committed to discontinuing timber harvest for commercial purposes over the 50-year lifespan of the HCP. While trees may be cut, timber harvests are allowed only when they benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP commits the City to improving fish and wildlife habitat, including salmonid fish passage, ecological and restoration thinning of more than 17,000 acres of second growth forest, restoration of riparian, wetland and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed.

### **Purveyor Contracts**

Approximately 30 percent of water sales revenue is derived from sales to 27 Purveyors. In 1982, the City entered into 30-year water supply contracts with the Purveyors, which purchase over 99 percent of the wholesale water currently sold by the City. The contracts obligate the City to meet the Purveyors’ demand for water (except in emergency conditions) and provide the City with the long-term commitments requisite to investing in future Water System expansions to serve the Purveyors. Under these contracts, any Purveyor that decides to develop alternative sources and leave the Water System must give five years’ notice and hold harmless the City and remaining Purveyors from any increased capital and operating costs allocated to them as a result of such withdrawal.

In 1994, the City and 24 of the Purveyors signed a contract amendment in which those Purveyors agreed to accept a larger share of the cost of conservation programs and to allow the City to continue to recover, through its wholesale rates, a prorated share of the cost of rehabilitating the Tolt River Pipeline.

SPU has been negotiating new water supply contracts. Negotiations have been completed on a model contract for Purveyors that rely on the City for all of their water supply. Under this contract, the City would be the sole supplier of water for those Purveyors for the next sixty years and would charge cost-based rates for this service. As of September 2001, three Purveyors (Cedar Creek, Coal Creek and Soos Creek), representing about 12 percent of total Purveyor consumption, had signed the new contract and relinquished their rights and responsibilities under the 1982 contract. SPU expects to complete negotiations shortly on a slight variation of this contract to supply water to Purveyors who own small independent sources of supply.

SPU also is negotiating a block sales contract with the Cascade Water Alliance (“CWA”), a consortium of eight current Purveyors representing about 48 percent of total Purveyor consumption. SPU anticipates that this contract will cap CWA demand from the Water System at approximately 40 MGD. CWA will develop sources of supply to satisfy the future water demands of CWA members above the cap amount and is funding feasibility studies for using Lake Tapps in Pierce County as a potable water supply. Under the block contract, CWA will likely be able to reduce the block of water it purchases from the Water System in increments of not more than 10 MGD in any five-year period. Even if CWA reduces the block of supply it purchases from the Water System, it is likely to continue to purchase transmission services.

The following table lists consumption in hundred cubic feet (“ccf”) by individual Purveyors and revenues generated by water sales to individual Purveyors in 2000.

### 2000 Water Sales to Purveyors

<b>Purveyor</b>	<b>Consumption (ccf)</b>	<b>Revenue</b>
Bellevue*	8,012,735	\$ 8,027,452
Kirkland*	3,138,937	3,175,535
Highline	3,020,265	2,707,268
Northshore*	2,835,768	2,877,736
Woodinville*	2,197,389	2,588,184
Soos Creek*	2,045,482	2,141,818
Water District #20*	1,336,147	1,225,136
Mercer Island*	1,198,242	1,091,869
Coal Creek*	1,124,051	1,267,550
Tukwila	1,096,157	1,020,484
Shoreline*	1,053,182	944,826
Cedar River	891,413	1,029,675
Water District #125	778,596	800,885
Bothell*	761,656	905,041
Water District #90*	735,758	737,952
Water District #49	673,859	616,922
Olympic View	439,561	411,271
Other Purveyors	<u>1,126,642</u>	<u>1,356,794</u>
<b>Total</b>	<b><u>32,495,858</u></b>	<b><u>\$32,926,503</u></b>

\* Indicates Purveyors that buy all water from SPU.

### Major Retail Water Users

The following table lists the Water System's ten largest retail water users in 2000. As there are no major water-intensive users in the service area, revenues from this group were less than six percent of total operating revenues in 2000.

### 2000 Major Water Accounts

<b>Company</b>	<b>Consumption (ccf)</b>	<b>Revenue</b>
University of Washington	1,093,988	\$ 1,636,429
Seattle Housing Authority	640,203	1,058,176
Seattle Parks Department	580,602	1,055,037
Port of Seattle	566,321	997,653
Seattle Steam	218,829	290,920
Birmingham Steel	199,328	293,507
Todd Shipyards	172,556	271,280
James Hardie Gypsum	161,708	244,910
Swedish Medical Center	143,922	230,980
Seattle School District	<u>131,882</u>	<u>274,772</u>
<b>Total</b>	<b>3,909,339</b>	<b>\$ 6,353,664</b>

### Water Rates

*Establishment of Rates.* Water rates are proposed by the Mayor, reviewed by the City Council and adopted after public hearings. The Mayor and the City Council have exclusive authority to set rates and charges for water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

*Current Rates.* Rates were increased effective May 2001 with the intent of increasing revenues by 5.6 percent relative to the rates in effect in 2000. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure. In response to drought conditions in the Pacific Northwest, the City in July 2001 added a third block to the residential rate for monthly consumption over 1500 cubic feet ("cf"), which was projected to add an additional one percent to System revenues.

<b>Seattle Water System 2001 Monthly Water Rates</b>			
	<b>Residential <sup>(1)</sup></b>	<b>Commercial <sup>(1)</sup></b>	<b>Purveyor</b>
<b>Commodity Charge</b> (\$ per ccf)			
Winter (eight months)	\$ 2.16	\$ 1.24	\$ 0.77
Summer (four months)			
Up to 500 cf	2.16	2.25	1.17
Next 1000 cf	2.85	2.25	1.17
Over 1500 cf <sup>(2)</sup>	11.40	2.25	1.17
Growth charge (\$/ccf) <sup>(3)</sup>			0.63
<b>Basic Service Charge <sup>(4)</sup></b> (\$ per month)			
3/4"	\$ 3.90	\$ 3.90	NA
1"	6.30	6.30	\$ 54.00
1-1/2"	12.20	12.20	60.00
2"	19.30	19.30	66.00
4"	59.10	59.10	108.00

(1) Direct service rates to customers outside the City limits are 14 percent higher.

(2) The third block of the residential rate is in effect for the period July 16 to September 15. In the period May 16 to July 15, consumption is charged at \$2.85 per hundred cubic feet.

(3) An individual Purveyor pays a growth charge on any purchases in excess of purchases in the base period (1979-81).

(4) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Rates to Purveyors served through master meters are established by the Purveyor contracts. SPU meters the peak instantaneous flow rate of Purveyors as a means of penalizing excessive peak demand on the Water System through a charge based on the equivalent financing cost of providing peak-hour storage. The proceeds of this charge are used to reduce revenue requirements when establishing wholesale rates.

*Rate Comparisons.* Seattle's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size. In the table below, monthly bills are displayed for a sample of cities throughout the U.S.

**Monthly Water Bill National Comparisons  
(2000 Rates)**

<b>City</b>	<b>State</b>	<b>Residential (10 ccf/month)</b>	<b>Commercial (500 ccf/month)</b>	<b>Industrial (15,000 ccf/month)</b>
Austin	Texas	\$ 18.04	\$ 898	\$ 24,401
Boston	Massachusetts	19.92	1,008	30,465
Dallas	Texas	12.93	509	11,369
Detroit	Michigan	10.72	371	10,103
Houston	Texas	21.65	842	25,003
Indianapolis	Indiana	20.45	633	10,357
Jacksonville	Florida	15.68	355	9,810
Los Angeles	California	17.25	567	17,010
New York	New York	13.10	650	1,034
Philadelphia	Pennsylvania	14.85	485	19,500
St. Louis	Missouri	15.22	434	10,799
San Antonio	Texas	11.01	380	10,958
San Francisco	California	16.00	655	19,101
<b>Seattle</b>	<b>Washington</b>	<b>25.18</b>	<b>724</b>	<b>21,339</b>
Washington	D.C.	15.76	690	20,700
Average		\$ 16.52	\$ 613	\$ 16,130

*Source: MWRA Advisory Board "Annual Water & Sewer Retail Rate Survey", November 2000, and Memphis Light, Gas and Water Division, "2000 Utility Bill Comparisons"*

The following table shows 2000 water bill rates for Seattle compared to other cities in the region.

**Regional Comparisons  
(2000 Rates)**

<b>City</b>	<b>State</b>	<b>Residential (10 ccf/month)</b>	<b>Commercial (500 ccf/month)</b>	<b>Industrial (15,000 ccf/month)</b>
Bellevue	Washington	\$ 25.41	\$ 1,021	\$ 29,484
Everett	Washington	16.75	465	11,775
Portland	Oregon	15.66	833	24,806
<b>Seattle</b>	<b>Washington</b>	<b>25.18</b>	<b>724</b>	<b>21,339</b>
Tacoma	Washington	14.28	411	7,654
Average		\$ 19.46	\$ 691	\$ 19,012

*Source: SPU Survey*

**Billing.** SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Customers receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent. Delinquent charges bear interest at the rate of twelve percent per annum.

**Capital Improvement Program**

Capital investments are guided by the Water Plan and the rolling six-year CIP, which is developed within the framework of the Water Plan and included in the Capital Improvement Program of the City as a whole. See

“Comprehensive Planning.” The CIP and the Water Plan are the basic elements of the Plan of Additions, for which the Bonds are a partial funding source. The CIP identifies facility needs and financing for rehabilitation, enhancement and expansion of the Water System. The CIP is reviewed, revised and adopted annually by the Mayor and Council as part of the City’s budget process.

The 2001-2006 CIP is organized into six program areas: (i) Water Infrastructure, (ii) Water Quality, (iii) Water Supply, (iv) Technology, (v) Habitat Conservation Plan, and (vi) Other Agency Projects, as shown in the table below.

<p style="text-align: center;"><b>Water System</b>  <b>2001-2006 Capital Improvement Program</b>  <b>(Amounts in Thousands)</b></p>							
<b>Program Area</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Total</b>
Water Infrastructure	\$ 36,508	\$ 33,269	\$ 28,224	\$ 38,793	\$ 35,375	\$ 51,847	\$224,016
Water Quality	14,549	42,600	44,094	35,946	9,199	12,616	159,004
Water Supply	4,237	6,649	7,123	5,195	5,091	6,201	34,496
Technology	4,692	5,298	4,832	4,953	5,076	5,230	30,081
Habitat Conservation Plan	4,688	8,755	8,425	10,410	9,303	2,974	44,555
Other Agency Projects	3,239	2,636	2,119	2,059	2,027	1,820	13,900
<b>Total</b>	<b>\$ 67,913</b>	<b>\$ 99,207</b>	<b>\$ 94,817</b>	<b>\$ 97,356</b>	<b>\$ 66,071</b>	<b>\$ 80,688</b>	<b>\$506,052</b>
<b>Funding Sources</b>							
Debt Financing							
Outstanding Bonds	\$ 51,951	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,951
The Bonds	7,987	44,538	0	0	0	0	52,525
Future Bonds	0	42,151	80,957	82,190	48,559	59,686	313,543
Total Debt Financing	59,938	86,689	80,957	82,190	48,559	59,686	418,019
Internally Generated Funds	3,389	7,876	9,161	10,421	12,708	16,138	59,692
Grants and Reimbursement	4,586	4,641	4,699	4,745	4,805	4,865	28,340
<b>Total</b>	<b>\$ 67,913</b>	<b>\$ 99,207</b>	<b>\$ 94,817</b>	<b>\$ 97,356</b>	<b>\$ 66,071</b>	<b>\$ 80,688</b>	<b>\$506,052</b>

*Water Infrastructure.* Projects include efforts to rehabilitate or replace system components that have either exceeded their useful lives or are beyond repair, or to make improvements that extend the useful lives of assets. These projects include work on dams, pipelines, tanks, pump stations, and services/hydrants/taps, as well as improvements to buildings and data processing systems.

*Water Quality.* Projects are intended to protect water purity and to meet State and federal health regulations. Significant projects in this category include the design and construction of the new Cedar River ozonation facility and the covering of several in-town reservoirs.

*Water Supply.* These projects will increase the supply of water, or reduce demand via conservation. The major project in this program area is the completion of Tolt 2, which will add 35 MGD of transmission capacity. Further development of the Highline Wellfield is also planned. The principal conservation project included in the 2001-2006 CIP is an effort to reduce per capita consumption by one percent per year for each year through 2010. See “Endangered Species Act and Regional Needs Assessment.”

*Technology.* Projects in this category, designed to increase efficiency and productivity, include a new water supervisory control and data acquisition system to monitor and control water supply, transmission and distribution.

*Habitat Conservation Plan.* These projects are directly related to the Cedar River Watershed Habitat Conservation Plan, and include stream and forest restoration, fish passage improvements at the Landsburg diversion and a sockeye salmon hatchery. See “Watershed Management Policies.”



*Other Agency Projects.* These projects consist largely of reimbursable work performed for other agencies which is either required by the action of other agencies or undertaken because they are cost effective for the Water System given projects initiated by other agencies.

*Funding Sources.* The development of the 2001-2006 CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. In response, SPU has steadily expanded the Water System CIP, raised rates and increased its long term borrowing plans. In managing the expansion of the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water Plan. For the 2001-2006 CIP, SPU expects the financial requirements for these projects to be met from:

- (i) Net Revenue of the Water System,
- (ii) the proceeds of the Bonds,
- (iii) the proceeds of Future Parity and Subordinate Lien Bonds (approximately \$313 million), and
- (iv) contributions in aid of construction.

*Other Projects.* In addition to the projects listed in the 2001-2006 CIP, the Mayor and City Council have approved participation in the Tacoma SSP. See "Future Water Supply." The agreement on the Tacoma SSP is expected to provide SPU flexibility to finance its share of the project directly, or to pay a share of the project financing arranged by Tacoma. At this time, SPU anticipates that Tacoma will issue any debt related to the Tacoma SSP, and SPU will pay Tacoma for SPU's share of debt service as an operating expense. Because SPU anticipates paying its share of Tacoma SSP costs as an operations expense, these costs are not included in the 2001-2006 CIP.

### **Financial Policies**

The Mayor and Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service. These financial policies are subject to change by the Mayor and the Council.

### **Financial Performance**

*Historical Operating Results.* The table "Historical Operating Results" shows revenues and expenses of the Water System. The Water System has been designed and maintained to require a minimum of pumping and treatment, and does not rely on outside sources to meet water demand. Productivity improvements and reallocation of resources have allowed the Water System to manage an increasing work load related to environmental, water quality and governance issues with modest increases in operating and maintenance expenses over the last five years. However, during the last five years SPU has greatly expanded the size of its CIP and has raised rates to support these investments.

Operating revenues are generated primarily from wholesale and retail water sales. Revenue growth has been boosted by rate increases of approximately 7.1 percent in 1996, 9.3 percent in 1997, 9.3 percent in 1998, 10.5 percent in 1999, 19.1 percent in 2000, and 6.6 percent in 2001. From 1996 to 2000, revenue increased by 53 percent, all of which was attributable to rate increases as there was no demand growth during this period.

**Water System  
Historical Operating Results**

	1996	1997	1998	1999	2000
<b>Operating Revenue</b>					
Water Sales	\$ 67,706,289	\$ 70,679,543	\$ 81,502,212	\$ 85,262,080	\$ 104,181,106
Other	1,234,376	1,276,817	1,345,067	992,719	1,177,201
<b>Total Operating Revenue</b>	<b>\$ 68,940,665</b>	<b>\$ 71,956,360</b>	<b>\$ 82,847,279</b>	<b>\$ 86,254,799</b>	<b>\$ 105,358,307</b>
<b>Other Income</b>					
Interest Income-Other	\$ 1,874,013	\$ 2,576,790	\$ 2,485,622	\$ 1,948,977	\$ 7,106,312
Timber Income and Other, Net	1,329,720	827,880	460,104	(406,470)	1,281,234
<b>Total Other Income</b>	<b>\$ 3,203,733</b>	<b>\$ 3,404,670</b>	<b>\$ 2,945,726</b>	<b>\$ 1,542,507</b>	<b>\$ 8,387,546</b>
<b>Operating Expenses</b>					
Operating and Maintenance Expenses					
Expenses	\$ 34,734,803	\$ 37,018,782	\$ 42,740,762	\$ 45,385,001	\$ 44,326,034
Taxes Other Than City Taxes	2,639,223	2,695,227	3,041,004	3,186,323	3,684,762
Other Expenses					
City Taxes	4,754,270	4,942,896	5,447,946	5,670,495	6,890,171
Depreciation	15,798,589	18,901,079	18,616,744	19,625,179	18,424,697
<b>Total Operating Expenses</b>	<b>\$ 57,926,885</b>	<b>\$ 63,557,984</b>	<b>\$ 69,846,456</b>	<b>\$ 73,866,998</b>	<b>\$ 73,325,664</b>
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	\$ 12,762,694	\$ 14,248,169	\$ 15,555,390	\$ 17,342,738	\$ 19,692,141
<b>Net Income</b>	<b>\$ 1,454,819</b>	<b>\$ (2,445,123)</b>	<b>\$ 391,159</b>	<b>\$ (3,412,430)</b>	<b>\$ 20,728,048</b>
Contribution in Aid of Construction	\$ 5,996,866	\$ 5,123,704	\$ 5,276,752	\$ 7,457,305	\$ 5,183,193
Transfer to/from Rate Stabilization Fund	0	0	5,800,000	0	(4,252,000)
Accrued and Other Non-Cash Expenses	0	0	(124,742)	4,612,609	(18,004)
<b>Revenue Available for Debt Service*</b>	<b>\$ 40,767,238</b>	<b>\$ 40,770,725</b>	<b>\$ 50,963,249</b>	<b>\$ 51,295,896</b>	<b>\$ 66,648,246</b>
<b>Debt Service</b>					
Parity Lien Debt Service	\$ 20,745,345	\$ 22,036,925	\$ 25,491,770	\$ 31,177,241	\$ 41,316,088
Subordinate Lien Debt Service	1,554,944	1,623,401	1,477,558	1,647,215	2,728,236
<b>Total Debt Service</b>	<b>\$ 22,300,289</b>	<b>\$ 23,660,326</b>	<b>\$ 26,969,328</b>	<b>\$ 32,824,456</b>	<b>\$ 44,044,324</b>
<b>Debt Service Coverage</b>					
Parity Lien Debt Service Coverage	1.97	1.85	2.00	1.65	1.61
Subordinate Lien Debt Service Coverage	12.88	11.54	17.24	12.21	9.29
<b>Overall Debt Service Coverage</b>	<b>1.83</b>	<b>1.72</b>	<b>1.89</b>	<b>1.56</b>	<b>1.51</b>

\* Revenue available for debt service = net income + contributions in aid of construction + interest expenses + City taxes + depreciation - ULID interest income +/- rate stabilization fund transfers. Under the City charter, City taxes are payable after payment of debt service.

*Projected Operating Results.* The table “Projected Operating Results” shows projected revenues and expenses for the near term (2001-2006). Projections for this period assume a 2.5 percent inflation rate with a 5.5 percent interest cost on long term bonds.

The Water System is currently managing an unprecedented plan of additions, including operating cost increases due to new facilities. Debt service coverage levels are expected to be slightly below policy targets until 2003 in order to provide a stable path of water rate increases and avoid rate shocks. However, financial performance is expected to meet cash and net income targets during the entire period.

The 2001-2006 CIP will require a higher than historical level of investment which is due, in large part, to the completion of the second transmission line on the Tolt River source and a new treatment facility on the Cedar River source. Including the Bonds, SPU expects to issue approximately \$420 million in debt for the 2001-2006 Water System CIP. Annual debt service is expected to rise from \$47.4 million in 2001 to \$63.9 million in 2006.

Operations costs of the Water System are increasing because of new treatment facilities and the Tacoma SSP. Activation of the new Tolt River treatment plant increased operations costs by about \$2.3 million in 2001. Operating the new Cedar River treatment plant is expected to cost about \$3.5 million per year, beginning in 2005. SPU anticipates paying its share of Tacoma SSP operations and debt service costs to Tacoma as an operations expense (see “Other Projects”). These costs are expected to ramp up to about \$6 million per year by 2006. SPU is not subject to unanticipated increases in water purchase costs as its own supplies of water are sufficient to meet demand in this period. With the exception of the project-related operations cost increases above, operating expenses are expected to increase with the rate of inflation.

Efforts have been made to avoid rate spikes and to assure a relatively even rate of increase over the next six years. Projected rate increases are shown below. The rate increase for 2002 has been approved by the Mayor and the City Council.

<b>Projected Water System Rate Increases*</b>	
<b>Year</b>	
2002	6.5%
2003	9.0
2004	9.0
2005	9.0
2006	4.6

\* Projected rate increases are measured by the percentage change in water sales revenue resulting from the rate increase.

The preceding table shows projected rate increases through 2006. IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THAT, AS OF THE DATE OF THIS OFFICIAL STATEMENT, THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, INCLUDING A WIDE VARIETY OF RISKS AND UNCERTAINTIES. ACTUAL CONDITIONS MAY DIFFER MATERIALLY FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

*Long Term (2001–2020).* The most significant factor in the Water System’s long term financial picture is its CIP. During the next 20 years, SPU must:

- (i) rehabilitate the aging water distribution system,
- (ii) make seismic improvements at a few critical locations, and

- (iii) make water quality improvements.

This program is estimated to cost \$1.0 billion (in constant 2000 dollars). During this period, SPU expects to continue to rely on debt to finance much of the CIP, but not to the extent it will in the 2001-2006 period. Future bond financings over the next 20 years are estimated to total \$0.6 billion (2000 dollars).

**Water System  
Projected Operating Results <sup>(1)</sup>**

	2001	2002	2003	2004	2005	2006
<b>Operating Revenue</b>						
Water Sales	\$100,781,272	\$116,419,752	\$126,654,879	\$137,775,961	\$149,858,016	\$156,428,782
Other	1,008,000	1,031,000	1,055,000	1,080,000	1,107,000	1,134,000
<b>Total Operating Revenue</b>	<b>\$101,789,272</b>	<b>\$117,450,752</b>	<b>\$127,709,879</b>	<b>\$138,855,961</b>	<b>\$150,965,016</b>	<b>\$157,562,782</b>
<b>Other Income</b>						
Investment and Interest Income	\$ 1,747,845	\$ 2,714,890	\$ 2,588,124	\$ 1,482,923	\$ 1,123,107	\$ 850,251
Other Income, Net	1,812,000	379,000	381,000	383,000	389,000	394,000
<b>Total Other Income</b>	<b>\$ 3,559,845</b>	<b>\$ 3,093,890</b>	<b>\$ 2,969,124</b>	<b>\$ 1,865,923</b>	<b>\$ 1,512,107</b>	<b>\$ 1,244,251</b>
<b>Operating Expenses</b>						
Operating and Maintenance Expenses						
Expenses	\$ 44,213,000	\$ 45,987,000	\$ 50,570,000	\$ 53,180,000	\$ 57,696,000	\$ 59,262,000
Taxes Other Than City Taxes	3,577,425	4,284,240	4,418,194	4,770,046	5,311,771	5,525,929
Other Expenses						
City Taxes	6,637,422	8,036,229	8,295,526	8,987,989	10,057,607	10,475,743
Depreciation	23,102,000	26,690,000	29,724,000	31,937,000	38,259,000	41,114,000
<b>Total Operating Expenses</b>	<b>\$ 77,529,847</b>	<b>\$ 84,997,469</b>	<b>\$ 93,007,720</b>	<b>\$ 98,875,035</b>	<b>\$111,324,378</b>	<b>\$116,377,672</b>
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	27,121,259	30,462,124	32,413,704	32,274,128	39,835,716	40,953,958
<b>Net Income</b>	<b>\$ 698,011</b>	<b>\$ 5,085,049</b>	<b>\$ 5,257,579</b>	<b>\$ 9,572,721</b>	<b>\$ 1,317,029</b>	<b>\$ 1,475,403</b>
Contribution in Aid of Construction	\$ 4,586,000	\$ 4,641,000	\$ 4,699,000	\$ 4,745,000	\$ 4,805,000	\$ 4,865,000
Transfer to/from Rate Stabilization Fund	2,252,000	2,000,000	0	0	0	0
<b>Revenue Available for Debt Service <sup>(2)</sup></b>	<b>\$ 64,396,692</b>	<b>\$ 76,914,402</b>	<b>\$ 80,389,809</b>	<b>\$ 87,516,838</b>	<b>\$ 94,274,352</b>	<b>\$ 98,884,104</b>
<b>Debt Service</b>						
Parity Lien Debt Service	\$ 44,540,747	\$ 47,079,902	\$ 47,089,619	\$ 52,896,166	\$ 54,824,594	\$ 57,500,300
Subordinate Lien Debt Service	2,849,100	4,805,000	6,230,806	6,285,806	6,237,806	6,288,806
<b>Total Debt Service</b>	<b>\$ 47,389,847</b>	<b>\$ 51,884,902</b>	<b>\$ 53,320,425</b>	<b>\$ 59,181,972</b>	<b>\$ 61,062,400</b>	<b>\$ 63,789,106</b>
<b>Debt Service Coverage</b>						
Parity Lien Debt Service Coverage	1.45	1.63	1.71	1.65	1.72	1.72
Subordinate Lien Debt Service Coverage	6.97	6.21	5.34	5.51	6.32	6.58
<b>Overall Debt Service Coverage</b>	<b>1.36</b>	<b>1.48</b>	<b>1.51</b>	<b>1.48</b>	<b>1.54</b>	<b>1.55</b>

(1) Projected results assume rate increases described above in "Projected Operating Results."

(2) Revenue available for debt service = net income + interest expenses + City taxes + depreciation + contributions in aid of construction +/- rate stabilization fund transfers. Under the City charter, City taxes are payable after payment of debt service.

## THE CITY OF SEATTLE

The following provides general information about the City.

### **Municipal Government**

Incorporated in 1869, the City of Seattle, Washington, is the largest city in the Pacific Northwest and is the county seat of King County (the "County"). The City's elected officials are a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

### **Financial Management**

City financial management functions are provided by the Department of Finance. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master's degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

*Accounting.* The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over financial transactions of all City funds.

*Auditing.* The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8300.

*Municipal Budget.* City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office within the Department of Finance pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

*Investments.* **The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System, and some debt issuance proceeds that are administered by trustee service providers.**

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Finance. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers' acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Finance policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting about the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of August 31, 2001, the combined investment portfolios of the City totaled \$983.9 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. The average yield on the City's consolidated pool of investments in 2000, on a cash and accrual basis, was 5.5 percent. As of August 31, 2001, the average maturity date of the portfolio was May 31, 2003. Approximately 63.3 percent, or \$613.3 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

U.S. Government and Agency securities	50.6%
Commercial paper	27.4
U.S. Government Agencies Liquidity	11.8
Repurchase agreements	5.3
U.S. Treasury securities	2.6
Bankers' acceptances	2.0
Mortgage-backed securities	0.4

*Interfund Loans.* City ordinances authorize the Director of Finance to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

## **Risk Management**

The City maintains \$25,000,000 liability insurance, with a \$2,500,000 self-insured retention for each occurrence. The City also maintains \$200,000,000 property insurance, with a \$100,000 deductible for each occurrence, on City-owned buildings with value greater than the deductible, unless insurance of at least equivalent value is provided by other parties. Hydroelectric projects owned by the City are not insured. Workers compensation is insured to statutory limits, with a \$500,000 self-insured retention for each occurrence. In addition, insurance policies are purchased to cover other property and casualty exposure.

## **Pension System**

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 2000, was \$383.6 million; total City payroll was \$570.9 million. Nearly all City employees are required to contribute 8.03 percent of their annual base salary to the Plan, and the City contributes an additional 8.03 percent. As of January 1, 2000, system assets exceeded the accrued actuarial liability. The actuarial present value of future benefits was \$1.872 billion, the actuarial present value of future normal costs for present members was \$469.3 million and the actuarial value of assets available for benefits was \$1.582 billion. Combined employee and employer contributions to the Plan totaled approximately \$61.8 million for the year ending December 31, 2000.

## **Labor Relations**

The City has 32 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. There are 20 separate collective bargaining agreements. In 1998, the City completed

negotiations with unions representing firefighters, Police Department management and the majority of the City's general workforce. These contracts extend through the end of 2000 or 2001, depending on the union involved. In addition, the City concluded bargaining on the contract applicable to the Police Guild that was ratified in July 2000, and a new contract for the tax auditors with Teamsters Local 763 that was ratified in October 2000. The City has recently approved a new three-year contract with Local 77, which represents electrical workers in the Seattle City Light and Transportation departments. The City has a tentative agreement with Firefighters Local 27 and is near to agreement with the coalition of City unions that represents most of the City's non-uniformed employees. Negotiations are underway with the Seattle Police Management Association and the Fire Chiefs Local 2898.

## DEMOGRAPHIC AND ECONOMIC INFORMATION

King, Snohomish and Island Counties constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of King County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

### Population

The 1990 and 2000 U.S. Census population figures and recent population estimates for the City, King County and the Seattle PMSA are as follows:

<b>Year</b>	<b>Seattle</b>	<b>King County</b>	<b>Seattle PMSA</b>
2000 <sup>(1)</sup>	563,374	1,737,034	2,414,616
1999 <sup>(2)</sup>	540,500	1,677,000	2,333,600
1998 <sup>(2)</sup>	539,700	1,665,800	2,306,400
1997 <sup>(2)</sup>	536,600	1,646,200	2,269,000
1996 <sup>(2)</sup>	534,700	1,628,800	2,237,200
1990 <sup>(1)</sup>	516,259	1,507,319	1,972,961

(1) Source: U.S. Census

(2) Source: Washington State Office of Financial Management, Forecasting Division

### Per Capita Income

The following table presents per capita personal income.

	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
Seattle PMSA	\$36,854	\$33,968	\$31,372	\$29,494	\$27,736
King County	40,905	37,211	34,440	32,205	30,054
State of Washington	28,719	27,018	25,277	23,974	22,806

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

## Building Permit Value

The table below lists the value of construction for which building permits have been issued by the City of Seattle. The value of public construction is not included in this table. The total number of permits issued in 2000 was 6,483, for a total value of \$1,612,435,096.

### City of Seattle Building Permits

<u>Year</u>	<u>New Single Family</u>		<u>New Multifamily</u>		<u>Total Value</u>
	<u>Units</u>	<u>Value</u>	<u>Units</u>	<u>Value</u>	
2001*	173	\$ 25,542,036	1,191	\$ 80,693,828	\$ 106,235,864
2000	449	64,587,520	4,403	286,312,450	350,899,970
1999	480	65,696,744	3,065	191,087,633	256,784,377
1998	530	71,640,186	3,534	219,183,170	290,823,356
1997	469	68,601,487	1,930	147,134,120	215,735,607
1996	471	57,020,491	2,008	108,897,560	165,918,051

\* Through April 2001

Source: Building Permit Activity of City and County in the State of Washington, BP Logistics



## Industry and Employment

The table below shows employment by sector and unemployment for the Seattle PMSA.

**Seattle–Bellevue–Everett PMSA  
(King, Snohomish and Island Counties)  
Resident Civilian Labor Force and Employment  
and Nonagricultural Wage and Salary Employment**

	Average Annual <sup>(1)</sup>				
	1995	1996	1997	1998	1999 <sup>(2)</sup>
Civilian Labor Force					
Employment	1,171,200	1,207,100	1,297,500	1,337,300	1,355,600
Unemployment	65,700	63,300	44,800	42,700	47,400
Total Civilian Labor Force	1,236,900	1,270,400	1,342,300	1,380,000	1,403,000
Unemployment Rate	5.3%	5.0%	3.3%	3.1%	3.4%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	77,800	83,500	101,100	108,200	95,100
Misc. trans. equipment	9,100	8,500	8,800	9,300	9,500
Food products	16,600	17,300	17,000	16,100	14,900
Wood products and paper	12,600	12,600	12,400	12,500	12,100
Machinery and electrical	16,800	18,600	20,700	21,700	22,200
Instruments	10,500	10,900	11,800	12,100	11,900
Textiles, apparel and leather	4,700	4,700	5,100	4,900	4,500
Printing and publishing	13,900	14,300	14,100	13,800	13,700
Other manufacturing categories	25,900	26,500	27,800	29,700	30,100
Total manufacturing	187,900	196,900	218,800	228,200	214,000
Nonmanufacturing					
Contract construction	58,400	61,200	66,500	73,300	78,400
Transp., commun. and utilities	72,300	74,600	77,700	81,000	84,000
Wholesale and retail trade	287,800	294,600	304,000	315,500	325,000
Finance, insurance and real estate	73,500	74,900	76,700	81,500	84,600
Services	327,500	347,600	371,400	390,800	408,700
Government	172,000	175,100	178,100	183,000	187,000
Total nonmanufacturing	991,500	1,028,000	1,074,400	1,125,800	1,168,400
Total Nonagricultural Employment	1,180,000	1,225,500	1,293,900	1,353,800	1,382,400

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

Source: Washington State Department of Employment Security

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, San Juan, Skagit, Snohomish, Thurston, and Whatcom Counties, Washington.

<b>Puget Sound Area Major Employers</b>	
<b>Employer</b>	<b>Number of Employees</b>
The Boeing Company	79,100 <sup>(1)</sup>
Microsoft	15,400
University of Washington	15,000
King County	13,000
Safeway	9,900
Sisters of Providence Health	9,400
City of Seattle	8,870
Group Health Cooperative <sup>(2)</sup>	8,800
Fred Meyer	8,100
Alaska Air Group	8,000
US Postal Service	7,500
Nordstrom	6,800
Bank of America	6,600
Qwest <sup>(3)</sup>	6,200
The Bon Marche	5,400
Albertson's	5,400
Quality Food Centers	5,200
Virginia Mason Medical Center <sup>(2)</sup>	5,200
Seattle School District No. 1	4,900
MultiCare Health System	4,800

(1) This number reflects the most recent employment estimate, as of May 2001.

(2) Group Health and Virginia Mason merged in 1996. The companies are coordinating functions, but still report separate employment figures.

(3) Formerly US West Communications.

Sources: *Puget Sound Business Journal, Book of Lists, 2000, and individual employers, January 2001.*

The Boeing Company ("Boeing") had revenues of \$56.2 billion in 1998, \$58.0 billion in 1999 and \$51.3 billion in 2000. Total airplane deliveries in 2000 were 489, compared to 620 in 1999. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 198,100 and employment within the State dropped from 103,420 to 79,100 between February 1998 and May 2001. In May 2001, Boeing announced that it was moving its corporate headquarters to Chicago, Illinois. In September 2001, Boeing announced its plans to lay off between 20,000 and 30,000 employees by the end of 2002.

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with more than 34,000 employees worldwide, including 24,000 in the United States. Microsoft is a developer and manufacturer of computer operating systems and software. Microsoft's fiscal year 2000 revenues were \$22.9 billion, a 16 percent increase over fiscal year 1999 revenues.

## Retail Activity

The following table presents taxable retail sales in Seattle, Bellevue and King County.

### The City of Seattle and King County Taxable Retail Sales (000)

<u>Year</u>	<u>The City of Seattle</u>	<u>King County</u>
2000*	\$ 10,063,259	\$ 27,806,971
1999	12,728,470	34,810,738
1998	11,452,958	31,749,546
1997	10,633,522	29,154,617
1996	9,635,640	26,402,602
1995	9,216,804	25,065,320

\* Through third quarter.

Source: Washington State Department of Revenue

## Other Issues

A variety of additional issues may have an effect on the economy of the Seattle area, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, higher energy costs, and limits on residential development and resulting housing costs. The effects of these issues are interdependent and cannot be quantified.

## INITIATIVE AND REFERENDUM

### State Initiatives

Under the State Constitution, the voters of the State have the ability to initiate legislation and modify existing legislation through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

*Initiative 695.* Washington State Initiative Measure No. 695 ("I-695"), requiring voter approval for any increase in taxes, impact fees, permit fees, or any governmental "monetary charge," was approved by voters on November 2, 1999. On October 26, 2000, the Washington Supreme Court declared I-695 unconstitutional in its entirety.

*Initiative 722.* On November 7, 2000, the State's voters approved Initiative 722 ("I-722"), which would have limited property tax growth to two percent per year and would have rolled back some tax and fee increases. In September 2001, the Washington Supreme Court voided I-722 on the grounds that it violated the State Constitution's ban on more than one subject in any legislation, including an initiative.

*Initiative 747.* The Secretary of State has certified that Initiative Measure No. 747 ("I-747") will be placed before the State's voters at the November 6, 2001, general election. If approved by the State's voters, I-747 would reduce the limit on the total dollar amount of regular property taxes that may be levied annually by a taxing district (including the City) without a vote of its electors from 106 percent to 101 percent of the highest levy in the three previous years (excluding new construction, improvements, and State-assessed property). The full impact of I-747, if approved by the voters, cannot be predicted at this time.

*Future Initiative Legislation.* Other tax and fee initiative measures have been and may be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would be approved.

### **City Initiatives**

Under the City Charter, Seattle voters may initiate local legislation and modify existing legislation through the powers of initiative and referendum. See “Water System—Future Water Supply and Conservation.”

## **LEGAL AND TAX INFORMATION**

### **Litigation**

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

### **Approval of Counsel**

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinion of such firm with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

### **Tax Exemption**

*Exclusion from Gross Income.* In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

*Continuing Requirements.* The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

*Corporate Alternative Minimum Tax.* While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation’s adjusted current earnings (including any tax-exempt interest) over the corporation’s alternative minimum taxable income determined without regard to such increase. A corporation’s alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation’s alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

*Tax on Certain Passive Investment Income of S Corporations.* Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

*Foreign Branch Profits Tax.* Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

### **Certain Other Federal Tax Consequences**

*Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions.* Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

*Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.* Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

*Effect on Certain Social Security and Retirement Benefits.* Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

*Other Possible Federal Tax Consequences.* Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

*Original Issue Premium.* The Bonds maturing on November 1 in the years 2005 through 2020 have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser’s basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

*Original Issue Discount.* The Bonds maturing on November 1, 2021, and the Term Bonds maturing in the years 2026 and 2031 have been sold at prices reflecting original issue discount (“Discount Bonds”). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment, or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

### **Continuing Disclosure Undertaking**

*Basic Undertaking to Provide Annual Financial Information and Notice of Material Events.* To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Resolution (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

*Annual Financial Information.* The City will provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the “SID”), annual financial information and operating data of the type included in this Official Statement with respect to the Water System as generally described below (“annual financial information”):

- (i) annual financial statements of the Water System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;
- (ii) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the Water System;

- (iii) debt service coverage ratios;
- (iv) summary operating statistics for the Water System, including population served, water sales revenue and billed water use; and
- (v) current water rates.

Annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as required or permitted by State law, commencing with the City's current fiscal year ending December 31, 2001. In its provision of annual financial information with respect to these obligations of the City, the City may cross-reference to any "final official statement" (as defined in the Rule) available from the Municipal Securities Rulemaking Board ("MSRB") or any other documents provided to each then existing NRMSIR and the SID.

The City also will provide or cause to be provided to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified above.

*Material Events.* The City further will provide or cause to be provided to each NRMSIR or the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders of the Bonds;
- (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds);
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

For purposes of this section, "Continuing Disclosure Undertaking," the term "holders of the Bonds" will have the meaning intended for such term under the Rule.

*Amendment of Undertaking.* The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended operating data or financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

*Termination of Undertaking.* The City's obligations to provide annual financial information and notices of certain events will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City

(i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the SID and either the MSRB or each then existing NRMSIR.

*Remedy for Failure to Comply with Undertaking.* If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the Undertaking.

*Other Continuing Disclosure Undertakings of the City.* The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, subject to the Rule. The City is in compliance with all such undertakings.

## **OTHER BOND INFORMATION**

### **Municipal Bond Insurance**

*The information in this section has been provided by Financial Guaranty Insurance Company. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with Financial Guaranty Insurance Company.*

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). See Appendix F—Specimen Municipal Bond New Issue Insurance Policy. The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.



The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2001, the total capital and surplus of Financial Guaranty was approximately \$1.181 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

### **Ratings on the Bonds**

As noted on the cover page of this Official Statement, the City has received ratings on the Bonds from Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc., with the understanding that, upon delivery of the Bonds, the Policy will be issued by Financial Guaranty. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Purchaser of the Bonds**

The Bonds are being purchased by Goldman, Sachs & Co. (the "Purchaser") at a price of \$52,565,300.35, plus accrued interest. The Bonds will be reoffered at the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

### **Official Statement**

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Water System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By: \_\_\_\_\_  
Dwight D. Dively  
Director of Finance

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## **APPENDIX A**

## **ORDINANCE**

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ORDINANCE \_\_\_\_\_

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, providing a bond reserve, refunding a portion of the City's outstanding water system revenue bonds and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and creating certain accounts of the City.

Passed \_\_\_\_\_, 2001.

## TABLE OF CONTENTS

	<u>Page</u>
SECTION 1. DEFINITIONS.....	7
SECTION 2. ADOPTION OF PLAN OF ADDITIONS. ....	26
SECTION 3. AUTHORIZATION AND DESCRIPTION OF BONDS. ....	27
SECTION 4. BOND RESOLUTION.....	28
SECTION 5. REGISTRATION AND TRANSFER OR EXCHANGE OF BONDS. ....	29
SECTION 6. MUTILATED, LOST, STOLEN AND DESTROYED BONDS.....	33
SECTION 7. PAYMENT OF BOND PRINCIPAL AND INTEREST. ....	34
SECTION 8. REDEMPTION AND OPEN MARKET PURCHASE OF BONDS. .....	35
(a) Optional Redemption. ....	35
(b) Mandatory Redemption.....	35
(c) Partial Redemption.....	36
(d) Open Market Purchase. ....	36
(e) Bonds to be Canceled.....	36
SECTION 9. NOTICE OF REDEMPTION. ....	37
SECTION 10. FAILURE TO REDEEM BONDS.....	37
SECTION 11. FORM AND EXECUTION OF BONDS. ....	37
SECTION 12. BOND REGISTRAR. ....	39
SECTION 13. EXECUTION OF REFUNDING PLAN.....	40
(a) Appointment of Refunding Trustee .....	40
(b) Use of Bond Proceeds; Acquisition and Substitution of Acquired Obligations .....	40
(c) Administration of Refunding Plan .....	43
(d) Authorization for Refunding Trust Agreement.....	43
SECTION 14. CALL FOR REDEMPTION OF THE REFUNDED BONDS .....	43
SECTION 15. CITY FINDING WITH RESPECT TO REFUNDING .....	44
SECTION 16. BOND ACCOUNT. ....	45
SECTION 17. CONSTRUCTION ACCOUNT.....	48

1	SECTION 18. RATE STABILIZATION ACCOUNT. ....	48
2	SECTION 19. FINDING AS TO SUFFICIENCY OF GROSS REVENUE. ....	50
3	SECTION 20. PLEDGE OF NET REVENUE AND LIEN POSITION. ....	50
4	SECTION 21. PARITY BOND COVENANTS. ....	50
5	(a) Operation and Maintenance. ....	51
6	(b) Establishment and Collection of Rates and Charges. ....	51
7	(c) Sale, Transfer or Disposition of the Municipal Water System. ....	52
8	(d) Liens Upon the Municipal Water System. ....	54
9	(e) Books and Accounts. ....	54
10	(f) Collection of Delinquent Accounts. ....	55
11	(g) Maintenance of Insurance. ....	55
12	(h) Condemnation Awards and Insurance Proceeds. ....	56
13	SECTION 22. FLOW OF FUNDS. ....	56
14	SECTION 23. PROVISIONS FOR FUTURE PARITY BONDS. ....	57
15	SECTION 24. REIMBURSEMENT OBLIGATIONS. ....	60
16	SECTION 25. SEPARATE UTILITY SYSTEMS. ....	60
17	SECTION 26. CONTRACT RESOURCE OBLIGATIONS. ....	61
18	SECTION 27. PRESERVATION OF TAX EXEMPTION FOR INTEREST ON BONDS. ....	62
19	SECTION 28. CONTINUING DISCLOSURE. ....	62
20	SECTION 29. ADVANCE REFUNDING OR DEFEASANCE OF BONDS. ....	63
21	SECTION 30. AMENDATORY AND SUPPLEMENTAL ORDINANCES. ....	64
22	SECTION 31. DEFAULTS AND REMEDIES. ....	68
23	(a) Events of Default. ....	68
24	(b) Bond Owners' Trustee. ....	69
25	(c) Suits at Law or in Equity. ....	70
26	(d) Application of Money Collected by Bond Owners' Trustee. ....	72
	(e) Duties and Obligations of Bond Owners' Trustee. ....	72
	(f) Suits by Individual Bond Owners Restricted. ....	73
	(g) Failure to Comply With Undertaking. ....	74
	SECTION 32. SALE OF BONDS. ....	74
	SECTION 33. TEMPORARY BOND. ....	75

1	SECTION 34. BONDS NEGOTIABLE. ....	76
2	SECTION 35. GENERAL AUTHORIZATION.....	76
3	SECTION 36. SEVERABILITY. ....	76
4	SECTION 37. RATIFICATION OF PRIOR ACTS. ....	76
5	SECTION 38. SECTION HEADINGS.....	77
6	SECTION 39. EFFECTIVE DATE. ....	77



ORDINANCE \_\_\_\_\_

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, providing a bond reserve, refunding a portion of the City's outstanding water system revenue bonds and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and creating certain accounts of the City.

WHEREAS, The City of Seattle (the "City") owns and operates a municipal water system (the "Municipal Water System"); and

WHEREAS, pursuant to Ordinance 116705 and Resolution 28745 the City issued its Two Hundred Fifty-Six Million Two Hundred Fifty-Five Thousand Dollars (\$256,255,000) principal amount Water System and Refunding Revenue Bonds, 1993 (the "1993 Bonds") payable from and having a charge and lien upon the Net Revenue of the Municipal Water System prior and superior to other charges whatsoever; and

WHEREAS, by Section 24 of Ordinance 116705, the City reserved the right to issue revenue bonds and other obligations having a charge and lien upon the Net Revenue of the Municipal Water System on a parity with the charge and lien of the 1993 Bonds ("Future Parity Bonds") if the following conditions are met and complied with at the time of issuance of those Future Parity Bonds:

(a) *There shall be no deficiency in the Bond Account and no Event of Default as defined in Section 34 of Ordinance 116705 shall have occurred and be continuing.*

(b) *The Parity Bond Authorizing Ordinance shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Account, except for any prepaid assessments permitted by law to be paid into a construction fund or account.*

(c) *The Parity Bond Authorizing Ordinance shall provide for the payment of the principal thereof and interest thereon out of the Bond Account.*

1           (d)     *The Parity Bond Authorizing Ordinance shall provide for*  
2     *the payment of amounts into the Bond Account to meet mandatory*  
3     *redemption requirements applicable to any Term Bonds to be issued and*  
4     *for regular payments to be made for the payment of the principal of such*  
5     *Term Bonds on or before their maturity, or, as an alternative, the*  
6     *mandatory redemption of those Term Bonds prior to their maturity date*  
7     *from money in the Principal and Interest Subaccount.*

8           (e)     *The Parity Bond Authorizing Ordinance shall provide for*  
9     *the deposit into the Reserve Subaccount of (i) an amount, if any, necessary*  
10    *to fund the Reserve Requirement upon the issuance of those Future Parity*  
11    *Bonds from Future Parity Bond proceeds or other money legally*  
12    *available, or (ii) Reserve Insurance or an amount plus Reserve Insurance*  
13    *necessary to fund the Reserve Requirement upon the issuance of those*  
14    *Future Parity Bonds, or (iii) amounts necessary to fund the Reserve*  
15    *Requirement from ULID Assessments and Adjusted Net Revenue within*  
16    *five years from the date of issuance of those Future Parity Bonds, in five*  
17    *approximately equal annual payments.*

18           (f)     *There shall be on file with the City either:*

19               (1)     *a certificate of the Director of Finance*  
20     *demonstrating that during any twelve consecutive calendar months*  
21     *out of the immediately preceding twenty-four (24) calendar months*  
22     *Adjusted Net Revenue was at least equal to the Coverage*  
23     *Requirement for all Parity Bonds plus the Future Parity Bonds*  
24     *proposed to be issued (and assuming that the debt service of the*  
25     *proposed Future Parity Bonds for that twelve-month period was*  
26     *the Average Annual Debt Service for those proposed bonds); or*

              (2)     *a certificate of both the Director of Finance and the*  
Superintendent of the Municipal Water System (or any officer who  
succeeds to substantially all of the responsibilities of either office)  
that in their opinion the Adjusted Net Revenue for the five fiscal  
years next following the earlier of (i) the end of the period during  
which interest on those Future Parity Bonds is to be capitalized or,  
if no interest is capitalized, the fiscal year in which the Future  
Parity Bonds are issued, or (ii) the date on which substantially all  
new facilities financed with those Future Parity Bonds are  
expected to commence operations, such Adjusted Net Revenue  
further adjusted as provided in paragraphs (i) through (iv) below,  
will be at least equal to the Coverage Requirement. That  
certificate may take into account the following adjustments:

1                   (i)     Any changes in rates in effect and being  
2                   charged, or rates expected to be charged in accordance  
3                   with a program of specific rates, rate levels or increases in  
4                   overall rate revenue approved by ordinance or resolution;

5                   (ii)    Net revenue from customers of the  
6                   Municipal Water System who have become customers  
7                   during the twelve (12) consecutive month period or  
8                   thereafter, and their estimate of net revenue from any  
9                   customers to be connected to the Municipal Water System  
10                  who have paid the required connection charges, adjusted to  
11                  reflect one year's net revenue from those customers;

12                  (iii)   Their estimate of net revenue from  
13                  customers anticipated to be served by facilities or  
14                  improvements financed in substantial part by those Future  
15                  Parity Bonds (or additional Parity Bonds expected to be  
16                  issued during the five-year period); and

17                  (iv)   Net revenue from any person, firm,  
18                  corporation or municipal corporation under any executed  
19                  contract for water or other utility service, which revenue  
20                  was not included in the historical Net Revenue of the  
21                  Municipal Water System.

22                         If the Future Parity Bonds proposed to be issued are for the sole  
23                         purpose of refunding outstanding bonds payable from the Bond Account,  
24                         no such coverage certification shall be required if the Adjusted Annual  
25                         Debt Service on the Parity Bonds after the issuance of the Future Parity  
26                         Bonds is not, for any year in which the Parity Bonds being refunded were  
                              outstanding, more than Five Thousand Dollars (\$5,000) over the Adjusted  
                              Annual Debt Service on the Parity Bonds prior to the issuance of those  
                              Future Parity Bonds; and

27                         WHEREAS, pursuant to Ordinance 118512 and Resolution 29553 the City issued  
28                         its Fifty-Three Million Dollars (\$53,000,000) principal amount Water System Revenue  
29                         Bonds, 1997 (the "1997 Bonds") on a parity of charge and lien with the 1993 Bonds; and

30                         WHEREAS, pursuant to Ordinance 118973 and Resolution 29785 the City issued  
31                         its Eighty Million Dollars (\$80,000,000) principal amount Water System Revenue Bonds,  
32                         1998 (the "1998 Bonds") on a parity of charge and lien with the 1993 Bonds and the 1997  
33                         Bonds; and

34                         WHEREAS, pursuant to Ordinance 119457 and Resolution 29973 the City issued  
35                         its One Hundred Million Dollars (\$100,000,000) principal amount Water System

1 Revenue Bonds, 1999 (the "1999A Bonds") on a parity of charge and lien with the 1993  
2 Bonds, the 1997 Bonds and the 1998 Bonds (together with the 1999A Bonds, the  
"Outstanding Parity Bonds"); and

3 WHEREAS, pursuant to Ordinance 119649 and Resolution 30057 the City issued  
4 its One Hundred Ten Million Dollars (\$110,000,000) principal amount Water System  
5 Revenue Bonds, 1999, Series B (the "1999B Bonds") on a parity of charge and lien with  
6 the Outstanding Bonds, and there are presently outstanding \_\_\_\_\_ Dollars  
7 (\$\_\_\_\_\_) par value of the 1999B Bonds maturing or subject to mandatory redemption  
in each of the years \_\_\_\_\_ through \_\_\_\_\_, inclusive, and bearing interest at various  
rates ranging from \_\_\_\_% to \_\_\_\_% per annum; and

8 WHEREAS, the City has need to acquire and construct certain additions or  
9 betterments to or extensions of the Municipal Water System described in the system or  
plan adopted by this ordinance (the "Plan of Additions"); and

10 WHEREAS, the City has determined to issue its water system revenue bonds on a  
11 parity of charge and lien with the Outstanding Parity Bonds to pay part of the cost of  
12 carrying out the Plan of Additions and to provide a reserve for and pay the costs of  
issuing and selling those bonds; NOW, THEREFORE,

13 BE IT ORDAINED BY THE CITY OF SEATTLE, WASHINGTON, AS FOLLOWS:

14 **Section 1. Definitions.** As used in this ordinance and for the purposes of this  
15 ordinance the following words shall have the following meanings:

16 **"Accreted Value"** means:

17  
18 (1) with respect to any Capital Appreciation Bonds, as of the time of  
19 calculation, the sum of the amount representing the initial principal amount of such  
20 Capital Appreciation Bonds as set forth in the applicable Parity Bond Authorizing  
21 Ordinance plus the interest accumulated, compounded and unpaid thereon as of the most  
22 recent compounding date, or

23  
24 (2) with respect to original issue discount bonds under the Code, as of  
25 the time of calculation, the amount representing the initial public offering price of such  
26 original issue discount bonds plus the amount of the discounted principal which has

1 accreted since the date of issue, determined in accordance with the provisions of the  
2 applicable Parity Bond Authorizing Ordinance.

3 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service  
4 minus (1) an amount equal to ULID Assessments due in that year and not delinquent, (2)  
5 an amount equal to earnings from investments in the Reserve Subaccount and (3) Annual  
6 Debt Service provided for by Parity Bond proceeds.

7  
8 **“Adjusted Gross Revenue of the Municipal Water System”** or **“Adjusted**  
9 **Gross Revenue”** means Gross Revenue of the Municipal Water System plus withdrawals  
10 from the Rate Stabilization Account and minus (1) ULID Assessments, (2) earnings from  
11 investments in the Reserve Subaccount and (3) deposits into the Rate Stabilization  
12 Account.

13  
14 **“Adjusted Net Revenue of the Municipal Water System”** or **“Adjusted Net**  
15 **Revenue”** means Adjusted Gross Revenue less Operation and Maintenance Expenses.

16 **“Annual Debt Service”** means, for any fiscal year of the City, all amounts  
17 required to be paid in respect of interest on and principal of Parity Bonds and Payment  
18 Agreement Payments in respect of Parity Payment Agreements, subject to the following:

19 (i) **Debt Service on Term Bonds.** For purposes of calculating debt  
20 service on Term Bonds, only the scheduled mandatory redemption amounts payable in  
21 respect of principal of Term Bonds shall be taken into account in any fiscal year prior to  
22 the Term Bond Maturity Year, and only the principal amount scheduled to remain  
23 outstanding after payment of all prior mandatory redemption amounts shall be taken into  
24 account in the Term Bond Maturity Year;  
25  
26

1 (ii) Interest on Parity Bonds. For purposes of determining compliance  
2 with the Coverage Requirement, the Reserve Requirement and conditions for the issuance  
3 of Future Parity Bonds,

4 (A) Generally. Except as otherwise provided by subparagraph  
5 (ii)(B) with respect to Variable Interest Rate Bonds and by subparagraph (ii)(C) with  
6 respect to Parity Bonds with respect to which a Payment Agreement is in force, interest  
7 on any issue of Parity Bonds shall be calculated based on the actual amount of accrued,  
8 accreted or otherwise accumulated interest that is payable in respect of that issue taken as  
9 a whole, at the rate or rates set forth in the Parity Bond Authorizing Ordinance;  
10

11 (B) Interest on Variable Interest Rate Bonds. The amount of  
12 interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be  
13 calculated on the assumption that the interest rate on those bonds would be equal to the  
14 rate (the “assumed RBI-based rate”) that is ninety percent (90%) of the average RBI  
15 during the fiscal quarter preceding the quarter in which the calculation is made;  
16

17 (C) Interest on Parity Bonds With Respect to Which a Payment  
18 Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment  
19 Agreement is in force shall be based on the net economic effect on the City expected to  
20 be produced by the terms of the Parity Bonds and the terms of the Payment Agreement,  
21 including but not limited to the effects that (i) Parity Bonds that would, but for a Payment  
22 Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead  
23 shall be treated as obligations bearing interest at a fixed interest rate, and (ii) Parity Bonds  
24 that would, but for a Payment Agreement, be treated as obligations bearing interest at a  
25 fixed interest rate instead shall be treated as obligations bearing interest at a Variable  
26

1 Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity  
2 Bonds with respect to which a Payment Agreement is in force shall be an amount equal to  
3 the amount of interest that would be payable at the rate or rates stated in those Parity  
4 Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the  
5 purposes of calculating as nearly as practicable Payment Agreement Receipts and  
6 Payment Agreement Payments under a Payment Agreement, the following assumptions  
7 shall be made:  
8

9 (1) Counterparty Obligated to Pay Actual Variable  
10 Interest on Variable Interest Rate Bonds. If any Payment Agreement obligates a Qualified  
11 Counterparty to make payments to the City based on the actual Variable Interest Rate on  
12 Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest  
13 Rate Bonds and obligates the City to make payments to the Qualified Counterparty based  
14 on a fixed rate, payments by the City to the Qualified Counterparty shall be assumed to be  
15 made at the fixed rate specified by the Payment Agreement and payments by the  
16 Qualified Counterparty to the City shall be assumed to be made at the actual Variable  
17 Interest Rate on such Parity Bonds, without regard to the occurrence of any event that,  
18 under the provisions of the Payment Agreement, would permit the Qualified Counterparty  
19 to make payments on any basis other than the actual Variable Interest Rate on such Parity  
20 Bonds, and the Parity Bond Authorizing Ordinance shall set forth a debt service schedule  
21 for those Parity Bonds based on that assumption;  
22

23 (2) Variable Interest Rate Bonds and Payment  
24 Agreements Having the Same Variable Rate Component. If both a Payment Agreement  
25 and related Parity Bonds that would, but for the Payment Agreement, be treated as  
26

1 Variable Interest Rate Bonds include a variable rate payment component that is required  
2 to be calculated on the same basis (including, without limitation, on the basis of the same  
3 variable rate index), it shall be assumed that the variable rate payment component payable  
4 pursuant to the Payment Agreement is equal in amount to the variable rate interest  
5 component payable on those Parity Bonds;

6 (3) Variable Interest Rate Bonds and Payment  
7 Agreements Having Different Variable Rate Interest Components. If a Payment  
8 Agreement obligates either the City or the Qualified Counterparty to make payments of a  
9 variable rate interest component on a basis that is different (including, without limitation,  
10 on a different variable rate index) from the basis that is required to be used to calculate  
11 interest on the Parity Bonds that would, but for the Payment Agreement, be treated as  
12 Variable Interest Rate Bonds, it shall be assumed:  
13

14 (a) City Obligated to Make Payments Based on  
15 Variable Rate Index. If payments by the City under the Payment Agreement are to be  
16 based on a variable rate index and payments by the Qualified Counterparty are to be  
17 based on a fixed rate, that payments by the City to the Qualified Counterparty will be  
18 based upon an interest rate equal to the assumed RBI-based rate, and that payments by the  
19 Qualified Counterparty to the City will be based on the fixed rate specified by the  
20 Payment Agreement; and  
21

22 (b) City Obligated to Make Payments Based on  
23 Fixed Rate. If payments by the City under the Payment Agreement are to be based on a  
24 fixed rate and payments by the Qualified Counterparty are to be based on a variable rate  
25 index, that payments by the City to the Qualified Counterparty will be based on an  
26



1 interest rate equal to the rate (the “assumed fixed payor rate”) that is one hundred and five  
2 percent (105%) of the fixed rate specified by the Payment Agreement, and that payments  
3 by the Qualified Counterparty to the City will be based on a rate equal to the actual  
4 Variable Interest Rate on the Variable Interest Rate Bonds;

5 (4) Certain Payment Agreements May be Disregarded.

6 Notwithstanding the provisions of subparagraphs (ii)(C)(1), (2) and (3) of this definition,  
7 the City shall not be required to (but may in its discretion) take into account in  
8 determining Annual Debt Service the effects of any Payment Agreement that has a term  
9 of ten (10) years or less;  
10

11 (D) Debt Service on Parity Payment Agreements. No

12 additional debt service shall be taken into account with respect to a Parity Payment  
13 Agreement for any period during which Payment Agreement Payments on that Parity  
14 Payment Agreement are taken into account in determining Annual Debt Service on  
15 related Parity Bonds under subparagraph (ii)(C) of this definition. However, for any  
16 period during which Payment Agreement Payments are not taken into account in  
17 calculating Annual Debt Service on any outstanding Parity Bonds because the Parity  
18 Payment Agreement is not then related to any outstanding Parity Bonds, debt service on  
19 that Parity Payment Agreement shall be taken into account by assuming:  
20  
21

22 (1) City Obligated to Make Payments Based on Fixed

23 Rate. If the City is obligated to make Payment Agreement Payments based on a fixed rate  
24 and the Qualified Counterparty is obligated to make payments based on a variable rate  
25 index, that payments by the City will be based on the assumed fixed payor rate, and that  
26 payments by the Qualified Counterparty will be based on a rate equal to the average rate

1 determined by the variable rate index specified by the Parity Payment Agreement during  
2 the fiscal quarter preceding the quarter in which the calculation is made, and

3 (2) City Obligated to Make Payments Based on  
4 Variable Rate Index. If the City is obligated to make Payment Agreement Payments  
5 based on a variable rate index and the Qualified Counterparty is obligated to make  
6 payment based on a fixed rate, that payments by the City will be based on a rate equal to  
7 the average rate determined by the variable rate index specified by the Parity Payment  
8 Agreement during the fiscal quarter preceding the quarter in which the calculation is  
9 made, and that the Qualified Counterparty will make payments based on the fixed rate  
10 specified by the Parity Payment Agreement; and

12 (E) Balloon Bonds. For purposes of calculating debt service on  
13 any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds,  
14 together with interest thereon at a rate equal to the assumed RBI-based rate, will be  
15 amortized in equal annual installments over a term of thirty (30) years.

17 **“Average Annual Debt Service”** means the sum of the Annual Debt Service for  
18 the remaining years to the last scheduled maturity of the applicable issue or issues of  
19 Parity Bonds divided by the number of those years.

21 **“Balloon Bonds”** means any series of Parity Bonds designated as Balloon Bonds  
22 in the applicable Parity Bond Authorizing Ordinance.

23 **“Bond Account”** means that special account of the City known as the Water  
24 Revenue Bond Account created by Ordinance 116705 in the Water Fund of the City for  
25 the payment of the principal of, mandatory sinking fund payments, Payment Agreement  
26 Payments, premiums, (if any), and interest on the Parity Bonds.

1           **“Bond Counsel”** means a firm of lawyers nationally recognized and accepted as  
2 bond counsel and so employed by the City for any purpose under this ordinance  
3 applicable to the use of that term.

4           **“Bond Insurance”** means any bond insurance, letter of credit, guaranty, surety  
5 bond or similar credit enhancement device providing for or securing the payment of all or  
6 part of the principal of and interest on any Parity Bonds.

7           **“Bond Insurer”** means any provider of Bond Insurance approved by the City  
8 Council by ordinance or resolution.

9           **“Bond Register”** means the books or records maintained by the Bond Registrar  
10 on which are recorded the names and addresses of the Registered Owners of each of the  
11 Bonds.  
12

13           **“Bond Registrar”** or **“Registrar”** :means the Fiscal Agency of the State of  
14 Washington, or any successor bond registrar selected by the City, whose duties include  
15 the registration and authentication of the Bonds, maintenance of the Bond Register,  
16 effecting transfer of ownership of the Bonds, and paying the principal of and premium, if  
17 any, and interest on the Bonds.  
18

19           **“Bond Resolution”** means one or more resolutions of the City Council adopted  
20 pursuant to this ordinance and confirming the sale and final terms of the Bonds.  
21

22           **“Bonds”** means the bonds authorized to be issued pursuant to, under the authority  
23 of and for the purposes provided in this ordinance.

24           **“1993 Bonds”** means the Water System and Refunding Revenue Bonds, 1993, of  
25 the City, issued pursuant to Ordinance 116705 and Resolution 28745.  
26

1           **“1997 Bonds”** means the Water System Revenue Bonds, 1997, of the City, issued  
2 pursuant to Ordinance 118512 and Resolution 29553.

3           **“1998 Bonds”** means the Water System Revenue Bonds, 1998, of the City, issued  
4 pursuant to Ordinance 118973 and Resolution 29785.

5           **“1999A Bonds”** means the Water System Revenue Bonds, 1999, of the City,  
6 issued pursuant to Ordinance 119457 and Resolution 29973.

7           **“1999B Bonds”** means the Water System Revenue Bonds, 1999, Series B of the  
8 City, issued pursuant to Ordinance 119649 and Resolution 30057.

9           **“Capital Appreciation Bonds”** means any Parity Bonds, all or a portion of the  
10 interest on which is compounded and accumulated at the rates or in the manner, and on  
11 the dates, set forth in the applicable Parity Bond Authorizing Ordinance and is payable  
12 only upon redemption or on the maturity date of such Parity Bonds. Parity Bonds that are  
13 issued as Capital Appreciation Bonds, but later convert to obligations on which interest is  
14 paid periodically, shall be Capital Appreciation Bonds until the conversion date and  
15 thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a  
16 principal amount equal to their Accreted Value on the conversion date.  
17

18           **“CIP”** means the portion or portions relating to the Municipal Water System of  
19 the “2001-2007 Capital Improvement Program” of the City as adopted by the City in  
20 Ordinance 120165, together with any previous adopted Capital Improvement Program of  
21 the City, as that Capital Improvement Program may be amended, updated, supplemented  
22 or replaced from time to time.  
23

24           **“City”** means The City of Seattle, Washington.  
25  
26

1           **“City Clerk”** means the City Clerk of the City, or any other officer who succeeds  
2 to substantially all of the responsibilities of that office specified in this ordinance.

3           **“City Council”** means the City Council of the City, as duly and regularly  
4 constituted from time to time.

5           **“Code”** means the Internal Revenue Code of 1986, as amended, and applicable  
6 rules and regulations promulgated thereunder.

7           **“Construction Account”** means the Water System Construction Subaccount,  
8 2001, created by this ordinance in the Water System Construction Account, which  
9 account was previously created in the Water Fund.

10           **“Contract Resource Obligation”** means an obligation of the City, designated as  
11 a Contract Resource Obligation and entered into pursuant to Section 26 of this ordinance,  
12 to make payments for water supply, transmission or other commodity or service to  
13 another person or entity (including without limitation a separate utility system created  
14 pursuant to Section 26 of this ordinance).

15           **“Coverage Requirement”** in any fiscal year of the City means an amount of  
16 Adjusted Net Revenue of the Municipal Water System equal to at least 1.25 times the  
17 Adjusted Annual Debt Service that year on all Parity Bonds.

18           **“Director of Finance”** means the Director of the Department of Finance of the  
19 City, or any other officer who succeeds to substantially all of the responsibilities of that  
20 office specified in this ordinance.

21           **“DTC”** means The Depository Trust Company, New York, New York, as initial  
22 Securities Depository for the Bonds.  
23  
24  
25  
26

1           **“Fiscal Agency”** means either of the fiscal agencies of the State of Washington  
2 located in Seattle, Washington, and New York, New York, or any other paying  
3 agent/registrar of the City, as the same may be designated in the Bond Resolution or  
4 otherwise designated from time to time.

5           **“Future Parity Bonds”** means all revenue bonds and other obligations (including  
6 Parity Payment Agreements) of the City issued or entered into after the date of the  
7 issuance of the Bonds and then outstanding, the payment of which constitutes a charge  
8 and lien on the Net Revenue of the Municipal Water System equal in rank with the charge  
9 and lien upon such revenue required to be paid into the Bond Account to pay and secure  
10 the payment of the principal of and interest on the Parity Bonds, including the Bonds.

11           **“Government Obligations”** means those government obligations defined by  
12 RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.  
13

14           **“Gross Revenue of the Municipal Water System”** or **“Gross Revenue”** means  
15 in any fiscal year of the City all of the revenues of the Municipal Water System, including  
16 but not limited to revenue from the sale or transmission of water; the sale, lease or  
17 furnishing of other commodities, services, properties or facilities; the imposition of  
18 connection, capital improvement or other charges; ULID Assessments; net receipts from  
19 Payment Agreements; and earnings from the investment of money in the Water Fund.  
20 However, Gross Revenue shall not include earnings of a separate utility system that may  
21 be acquired or constructed by the City pursuant to Section 25 of this ordinance; principal  
22 proceeds of Parity Bonds or other borrowings; or earnings or proceeds from any  
23 investments in a trust, defeasance or escrow fund created to defease or refund Municipal  
24 Water System obligations (until commingled with other earnings and revenues of the  
25  
26

1 Municipal Water System defined as Gross Revenue) or held in a special account for the  
2 purpose of paying a rebate to the United States Government under the Code.

3 **“Independent Consulting Engineer”** means either (1) an independent licensed  
4 professional engineer experienced in the design, construction or operation of municipal  
5 utilities of comparable size and character to the Municipal Water System, or (2) an  
6 independent certified public accountant or other professional consultant experienced in  
7 the development of rates and charges for municipal utilities of comparable size and  
8 character to the Municipal Water System.  
9

10 **“Letter of Representations”** means the Letter of Representations relating to the  
11 Bonds to be delivered by the City to DTC.

12 **“Maximum Annual Debt Service”** means at the time of calculation, the  
13 maximum amount of Annual Debt Service that will mature or come due in the current  
14 year or any future year on the Parity Bonds.  
15

16 **“Municipal Water System”** means the water system of the City as it now exists,  
17 and all additions thereto and betterments and extensions thereof at any time made for so  
18 long as any of the Parity Bonds are outstanding. The Municipal Water System shall not  
19 include any water supply or service or other facilities that may be created, acquired or  
20 constructed by the City as a separate utility system as provided in Section 25 of this  
21 ordinance.  
22

23 *Upon the maturity, redemption or defeasance of all of the then outstanding 1993*  
24 *Bonds, “Municipal Water System” shall be defined as follows:*

25 *“Municipal Water System” means the water system of the*  
26 *City as it now exists, and all additions thereto and*  
*betterments and extensions thereof at any time made,*

1                   *together with any utility systems of the City hereinafter*  
2                   *combined with the Municipal Water System. The Municipal*  
3                   *Water System shall not include any water supply or other*  
4                   *utility system service or other facilities that may be created,*  
5                   *acquired or constructed by the City as a separate utility*  
6                   *system as provided in Section 25 of this ordinance.*

7                   **“Net Revenue of the Municipal Water System”** or **“Net Revenue”** means the  
8                   Gross Revenue less Operation and Maintenance Expenses.

9                   **“Operation and Maintenance Expenses”** means all expenses incurred by the  
10                  City in causing the Municipal Water System of the City to be operated and maintained in  
11                  good repair, working order and condition, including without limitation: deposits,  
12                  premiums, assessments or other payments for insurance, if any, on the Municipal Water  
13                  System; payments into pension funds; State-imposed taxes; amounts due under Contract  
14                  Resource Obligations (but only at the times described in Section 26 of this ordinance);  
15                  payments made to any other person or entity for the receipt of water supply or  
16                  transmission or other commodity or service; and payments with respect to any other  
17                  expenses of the Municipal Water System that are properly treated as operation and  
18                  maintenance expenses under generally accepted accounting principles applicable to  
19                  municipal corporations. Operation and Maintenance Expenses does not include any  
20                  depreciation or taxes levied or imposed by the City, or payments to the City in lieu of  
21                  taxes, or capital additions or capital replacements to the Municipal Water System.

22                  **“Outstanding Parity Bonds”** means the then outstanding 1993 Bonds, 1997  
23                  Bonds, 1998 Bonds, 1999A and 1999B Bonds.

24                  **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds, and any Future  
25                  Parity Bonds.  
26



1           **“Parity Bond Authorizing Ordinance”** means the ordinance and/or resolution of  
2 the City that authorizes the issuance and sale and establishes the terms of a particular  
3 issue of Parity Bonds and other matters relating to the same plan of finance.

4           **“Parity Payment Agreement”** means a Payment Agreement under which the  
5 City’s payment obligations are expressly stated to constitute a charge and lien on the Net  
6 Revenue of the Municipal Water System equal in rank with the charge and lien upon such  
7 revenue required to be paid into the Bond Account to pay and secure the payment of the  
8 principal of and interest on Parity Bonds.  
9

10           *Upon the maturity, redemption or defeasance of all of the then outstanding 1993*  
11 *Bonds, “Parity Payment Agreement” shall be defined as follows:*

12                   *“Parity Payment Agreement” means a Payment Agreement*  
13 *under which the City’s payment obligations are expressly*  
14 *stated to constitute a charge and lien on the Net Revenue of*  
15 *the Municipal Water System equal in rank with the charge*  
16 *and lien upon such revenue required to be paid into the*  
17 *Bond Account to pay interest on Parity Bonds.*

18           **“Payment Agreement”** means a written agreement, for the purpose of managing  
19 or reducing the City’s exposure to fluctuations or levels of interest rates or for other  
20 interest rate, investment, asset or liability management purposes, entered into on either a  
21 current or forward basis by the City and a Qualified Counterparty as authorized by any  
22 applicable laws of the State in connection with, or incidental to, the issuance, incurring or  
23 carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other  
24 obligations for borrowed money, or lease, installment purchase or other similar financing  
25 agreements or certificates of participation therein, that provides for an exchange of  
26

1 payments based on interest rates, ceilings or floors on such payments, options on such  
2 payments, or any combination thereof or any similar device.

3 **“Payment Agreement Payments”** means the amounts periodically required to be  
4 paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

5 **“Payment Agreement Receipts”** means the amounts periodically required to be  
6 paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

7 **“Plan of Additions”** means, collectively, the CIP and the Water Supply Plan, as  
8 they may be modified hereafter as described herein.

9 **“Principal and Interest Subaccount”** means the account of that name created in  
10 the Bond Account for the payment of the principal of and interest and mandatory  
11 redemption requirements, if any, on the Parity Bonds.

12 **“Qualified Counterparty”** means a party (other than the City or a party related to  
13 the City) who is the other party to a Payment Agreement and (1)(a) whose senior debt  
14 obligations are rated in one of the three highest rating categories of each of the Rating  
15 Agencies (without regard to any gradations within a rating category) or (b) whose  
16 obligations under the Payment Agreement are guaranteed for the entire term of the  
17 Payment Agreement by a bond insurer or other institution which has been assigned a  
18 credit rating in one of the two highest rating categories of each of the Rating Agencies,  
19 and (2) who is otherwise qualified to act as the other party to a Payment Agreement under  
20 any applicable laws of the State.

21 **“Rate Stabilization Account”** means the account of that name created in the  
22 Water Fund pursuant to Ordinance 116705.

1           **“Rating Agencies”** means Moody’s Investors Service, Inc., and Standard &  
2           Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., and their  
3           successors, and any other nationally-recognized securities rating agency or agencies rating  
4           Parity Bonds at the request of the City.

5           **“RBI”** means The Bond Buyer Revenue Bond Index or comparable index, or, if  
6           no comparable index can be obtained, eighty percent (80%) of the interest rate for  
7           actively traded thirty (30) year United States Treasury obligations.

8           **“Refundable Bonds”** means all or a part of the 1999B Bonds.

9           **“Refunded Bonds”** means all or that portion of the Refundable Bonds included  
10          in a Refunding Plan.

11          **“Refunded Bond Ordinance”** means Ordinance 119649, pursuant to which the  
12          1999B Bonds were issued.

13          **“Refunding Parity Bonds”** means Parity Bonds issued for the purpose of  
14          refunding bonds of any prior series of Parity Bonds.

15          **“Refunding Plan”** means, for any series of Bonds:

16               (a)     the deposit with the Refunding Trustee of a portion of the proceeds  
17               of the Bonds which, together with other money deposited with the Refunding Trustee, is  
18               sufficient to acquire the Acquired Obligations (as defined in the Bond Resolution);

19               (b)     the acquisition by the Refunding Trustee of the Acquired  
20               Obligations;

21               (c)     the payment of the principal of and interest on the Refunded Bonds  
22               when due up to and including the date set forth in the Bond Resolution, and the call,  
23  
24  
25  
26

1 payment and redemption on that date of all or a portion of the then-outstanding Refunded  
2 Bonds, at the prices set forth in the Bond Resolution; and

3 (d) the payment of the costs of issuing the Bonds and the costs of  
4 carrying out the foregoing elements of the Refunding Plan.

5 **“Refunding Trust Agreement”** means the Refunding Trust Agreement between  
6 the City and a Refunding Trustee relating to a particular series of Bonds.

7 **“Refunding Trustee”** means the trustee or escrow agent, or any successor trustee  
8 or escrow agent, with respect to a particular series of Bonds, designated by the Director of  
9 Finance.  
10

11 **“Registered Owner”** means the person shown on the Bond Register as the owner  
12 of one or more Bonds.

13 **“Reserve Insurance”** means any bond insurance, letter of credit, guaranty, surety  
14 bond or similar credit enhancement device obtained by the City equal to part or all of the  
15 Reserve Requirement for any Parity Bonds which is issued by an institution which has  
16 been assigned a credit rating at the time of issuance of the device in one of the two  
17 highest rating categories of each of the Rating Agencies.  
18

19 **“Reserve Requirement”** means as of any date the lesser of Maximum Annual  
20 Debt Service or one hundred twenty-five percent (125%) of Average Annual Debt  
21 Service on the Parity Bonds.  
22

23 **“Reserve Subaccount”** means the account of that name created in the Bond  
24 Account for the purpose of securing the payment of the principal of and interest on the  
25 Parity Bonds.  
26

1           **“Securities Depository”** means any one of the following registered securities  
2           depositories which has been designated by the City: (i) DTC; (ii) Midwest Securities  
3           Trust Company, Chicago, Illinois; (iii) Philadelphia Depository Trust Company,  
4           Philadelphia, Pennsylvania; or (iv) such other securities depositories as the City may  
5           designate in a certificate of the City delivered to the Bond Registrar.

6           **“State”** means the State of Washington.

7           **“State Auditor”** means the office of the Auditor of the State or such other  
8           department or office of the State authorized and directed by State law to make audits.

9           **“Term Bond Maturity Year”** means any calendar year in which Term Bonds are  
10          scheduled to mature.

11          **“Term Bonds”** means those Parity Bonds designated as such in the applicable  
12          Parity Bond Authorizing Ordinance.

13          **“ULID”** means a utility local improvement district.

14          **“ULID Assessments”** means all assessments levied and collected in a ULID of  
15          the City created for the acquisition or construction of additions to and betterments and  
16          extensions of the Municipal Water System if (and only if) those assessments are pledged  
17          to be paid into the Bond Account, not including any prepaid assessments paid into a  
18          construction fund or account. ULID Assessments shall include installments thereof and  
19          any interest or penalties thereon.

20          **“Undertaking”** means the City’s undertaking in the Bond Resolution to provide  
21          certain disclosure as provided by Section 28.

22          **“Variable Interest Rate”** means any variable interest rate or rates to be borne by  
23          any Parity Bonds. The method of computing such a variable interest rate shall be as  
24

1 specified in the applicable Parity Bond Authorizing Ordinance (including a Bond  
2 Resolution), which ordinance or resolution also shall specify either (1) the particular  
3 period or periods of time or manner of determining such period or periods of time for  
4 which each value of such variable interest rate shall remain in effect or (2) the time or  
5 times upon which any change in such variable interest rate shall become effective. A  
6 Variable Interest Rate may, without limitation, be based on the interest rate on certain  
7 bonds or may be based on interest rate, currency, commodity or other indexes.  
8

9 **“Variable Interest Rate Bonds”** means, for any period of time, any Parity Bonds  
10 that bear a Variable Interest Rate during that period, except that Parity Bonds shall not be  
11 treated as Variable Interest Rate Bonds if the net economic effect of interest rates on  
12 particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same  
13 issue, as set forth in the applicable Parity Bond Authorizing Ordinance, or the net  
14 economic effect of a Payment Agreement with respect to particular Parity Bonds, in either  
15 case is to produce obligations that bear interest at a fixed interest rate; and Parity Bonds  
16 with respect to which a Payment Agreement is in force shall be treated as Variable  
17 Interest Rate Bonds if the net economic effect of the Payment Agreement is to produce  
18 obligations that bear interest at a Variable Interest Rate.  
19

20  
21 **“Water Fund”** means the fund of that name into which is paid the Gross  
22 Revenue of the Municipal Water System.

23 **“Water Supply Plan”** means the long range water supply plan known as the  
24 Updated Seattle Comprehensive Regional Water Plan, adopted by the City in  
25 Ordinance 11689, updated and approved as of April 2001, as that Water Supply Plan may  
26 be amended, updated, supplemented or replaced from time to time.

1           **Section 2. Adoption of Plan of Additions.** The CIP and the Water Supply Plan  
2           constitute a system or plan of additions to or betterments or extensions of the Municipal  
3           Water System (the “Plan of Additions” and each element thereof an “Addition”). To the  
4           extent not previously specified, adopted and ordered to be carried out by the City by  
5           ordinance, the City specifies, adopts and orders to be carried out the Plan of Additions as  
6           generally provided for in the Water Supply Plan and the CIP. The estimated cost of the  
7           Plan of Additions, as near as may be determined, is declared to be Five Hundred Six  
8           Million Fifty-Two Thousand Dollars (\$506,052,000), of which Fifty-Two Million Five  
9           Hundred Twenty-Five Thousand Dollars (\$52,525,000) is expected to be financed from  
10          the proceeds of the Bonds.  
11

12           The Plan of Additions shall include any amendments, updates, supplements or  
13          replacements to the CIP or the Water Supply Plan, all of which automatically shall  
14          constitute amendments to the Plan of Additions. The Plan of Additions also may be  
15          modified, without amending the CIP or the Water Supply Plan, to include other  
16          improvements if the City determines by ordinance that those amendments or other  
17          improvements constitute a system or plan of additions to or betterments or extensions of  
18          the Municipal Water System.  
19

20           The Plan of Additions includes the purchase and installation of all materials,  
21          supplies, appliances, equipment (including but not limited to data processing hardware  
22          and software and conservation equipment) and facilities, the acquisition of all permits,  
23          franchises, property and property rights, other capital assets and all engineering,  
24          consulting and other professional services and studies (whether performed by the City or  
25  
26

1 by other public or private entities) necessary or convenient to carry out the Plan of  
2 Additions.

3       **Section 3. Authorization and Description of Bonds.** For the purpose of  
4 providing all or a part of the money required to (1) pay part of the cost of carrying out the  
5 Plan of Additions; (2) provide for a reserve for the Bonds; (3) refund or advance refund  
6 all or a portion of the Refundable Bonds; and (4) pay the costs of issuing and selling the  
7 Bonds, the City shall issue and sell the Bonds in the aggregate principal amount of not to  
8 exceed One Hundred Seventy Million Dollars (\$170,000,000). The Bonds may be issued  
9 in one or more series, and such series may or may not include Bonds to carry out the  
10 Refunding Plan, as determined in the Bond Resolution based upon market conditions  
11 whether that refunding will be carried out at the same time as issuance of the Bonds. The  
12 refunding portion, if any, need not be a separate series and may be combined with other  
13 Parity Bonds authorized separately. The Bonds shall be called “The City of Seattle Water  
14 System and Refunding Revenue Bonds, 2001”; may have such different or further  
15 designation or designations as determined by the Bond Resolution or the Director of  
16 Finance; shall be dated and shall mature on such dates specified in the Bond Resolution;  
17 shall be dated as specified in the Bond Resolution; shall be in the denomination of Five  
18 Thousand Dollars (\$5,000) or any integral multiple thereof within a single maturity or  
19 such other denomination within a maturity provided by the Bond Resolution; shall be  
20 numbered separately, in the manner and with any additional designation as the Bond  
21 Registrar deems necessary for the purpose of identification; shall bear interest at the rate  
22 or rates (computed on the basis of a 360-day year of twelve 30-day months) as shall be  
23 specified and approved by the Bond Resolution, except that the net interest cost shall not  
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1 exceed a weighted average of eight percent (8.0%) per annum, payable semiannually on  
2 such dates as are specified by the Bond Resolution. The Bonds shall mature on the dates  
3 and be subject to optional or mandatory redemption, open market purchase or defeasance  
4 on the terms and at the times specified in the Bond Resolution, except that the final  
5 maturity of the Bonds shall not be later than December 31, 2032. The Director of Finance  
6 may designate Term Bonds with mandatory redemption amounts, all to be provided by  
7 the Bond Resolution. The Director of Finance also may specify in Bond closing  
8 documents the respective amounts of each maturity of the Bonds allocated to paying the  
9 costs of carrying out the Plan of Additions.  
10

11 **Section 4. Bond Resolution.** The City Council may adopt the Bond Resolution  
12 and in that resolution may provide for the matters described in this ordinance and such  
13 other matters that the City Council deems necessary and appropriate to carry out the  
14 purposes of this ordinance.  
15

16 The Bond Resolution may provide for Bond Insurance or Reserve Insurance, and  
17 conditions or covenants relating thereto, including additional terms, conditions and  
18 covenants relating to the Bonds that are required by the Bond Insurer and are consistent  
19 with the provisions of this ordinance, including but not limited to restrictions on  
20 investments and requirements of notice to and consent of the Bond Insurer.  
21

22 The Bond Resolution may approve and authorize the execution and delivery on  
23 behalf of the City of any agreements consistent with the provisions of this ordinance for  
24 which the City's approval is necessary or to which the City is a party and that are related  
25 or incidental to the initial issuance and sale of the Bonds, the establishment of the interest  
26

1 rate or rates on the Bonds, redemption of the Bonds, provision of Bond Insurance,  
2 payment agreements and similar agreements.

3 The City Council may determine and specify by the Bond Resolution the amount,  
4 if any, from the proceeds of or accrued interest on the Bonds to be deposited into  
5 specified funds, subfunds, accounts and subaccounts. In the absence of such a  
6 determination and specification in the Bond Resolution, the Director of Finance may  
7 make such determination and specification.  
8

9 **Section 5. Registration and Transfer or Exchange of Bonds.** The Bonds shall  
10 be issued only in registered form as to both principal and interest and recorded on the  
11 Bond Register. The Bond Register shall contain the name and mailing address of the  
12 Registered Owner of each Bond and the principal amount and number of each of the  
13 Bonds held by each Registered Owner.  
14

15 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any  
16 authorized denomination of an equal aggregate principal amount and of the same series,  
17 interest rate and maturity. Bonds may be transferred only if endorsed in the manner  
18 provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall  
19 be without cost to the Registered Owner or transferee. The Bond Registrar shall not be  
20 obligated to exchange or transfer any Bond during the fifteen (15) days preceding any  
21 principal or interest payment or redemption date (or other record date established by the  
22 Bond Resolution).  
23

24 The City appoints DTC as initial Securities Depository for the Bonds. For so long  
25 as DTC is the Securities Depository for the Bonds, DTC or its nominee shall be deemed  
26 to be the Registered Owner of the Bonds for all purposes hereunder, and all references in

1 this ordinance or the Bond Resolution to the Registered Owners of the Bonds shall mean  
2 DTC or its nominee and shall not mean the owners of any beneficial interests in the  
3 Bonds. Payments of principal of, premium, if any, and interest on all outstanding Bonds  
4 registered in the name of the nominee of DTC, or its registered assign, shall be made as  
5 provided in the Letter of Representations.

6 Bonds executed and delivered in fully immobilized form shall be executed and  
7 delivered in the form of one fully-registered immobilized certificate for each series and  
8 maturity of the Bonds representing the aggregate principal amount of the Bonds of that  
9 series and maturity, which Bonds shall (except as provided below for the discontinuation  
10 or substitution of Securities Depository) be registered in the name of the Securities  
11 Depository or its nominee. For so long as DTC serves as Securities Depository for the  
12 Bonds, the Bonds shall be registered in the name of Cede & Co., as nominee of DTC;  
13 however, if DTC shall request that the Bonds be registered in the name of a different  
14 nominee, the Bond Registrar shall exchange all or any portion of the Bonds for an equal  
15 aggregate principal amount of Bonds registered in the name of such other nominee or  
16 nominees of DTC. No person other than DTC or its nominee shall be entitled to receive  
17 from the City or the Bond Registrar any Bond or any other evidence of ownership of the  
18 Bonds, or any right to receive any payment in respect thereof, unless DTC or its nominee  
19 shall transfer record ownership of all or any portion of the Bonds on the Bond Register, in  
20 connection with discontinuing the book entry system as provided below or otherwise.

21 For so long as the Bonds are registered in the name of DTC or any nominee  
22 thereof, all payments of the principal of, or premium, if any, or interest with respect to the  
23 Bonds shall be made to DTC or its nominee in immediately available funds on the dates  
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1 provided for such payments under this ordinance and the Bond Resolution and at such  
2 times and in the manner provided in the Letter of Representations. Each such payment to  
3 DTC or its nominee shall be valid and effective to fully discharge all liability of the City  
4 or the Bond Registrar with respect to the principal of, premium, if any, or interest with  
5 respect to the Bonds to the extent of the sum or sums so paid. In the event of the  
6 redemption of less than all of the Bonds of any series and maturity, the Bond Registrar  
7 shall not require surrender by DTC or its nominee of the Bonds so redeemed, and DTC or  
8 its nominee may retain such Bonds and make an appropriate notation thereon as to the  
9 amount of such partial redemption. DTC shall deliver to the Bond Registrar, upon  
10 request, a written confirmation of such partial redemption. The records maintained by the  
11 Bond Registrar shall be conclusive as to the amount of the Bonds of such series and  
12 maturity that have been redeemed.  
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14

15 All transfers of beneficial ownership interests in Bonds registered in the name of  
16 DTC or its nominee shall be effected by the procedures of DTC's participants and/or  
17 indirect participants for recording and transferring the ownership of beneficial interests in  
18 bonds.  
19

20 The City and the Bond Registrar may treat DTC (or its nominee) as the sole and  
21 exclusive Registered Owner of the Bonds registered in its name for the purposes of  
22 payment of the principal of, premium, if any, or interest with respect to those Bonds,  
23 selecting Bonds or portions thereof to be redeemed, giving any notice permitted or  
24 required to be given to Registered Owners under this ordinance or the Bond Resolution,  
25 registering the transfer of Bonds, obtaining any consent or other action to be taken by  
26 Registered Owners of Bonds and for all other purposes whatsoever; and the City and the

1 Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond  
2 Registrar shall not have any responsibility or obligation to any direct or indirect DTC  
3 participant, any person claiming a beneficial ownership interest in the Bonds under or  
4 through DTC or any such participant, or any other person which is not shown on the  
5 Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds;  
6 (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or  
7 any such direct or indirect participant of any amount in respect of the principal of,  
8 premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted  
9 or required to be given to Registered Owners of Bonds under this ordinance or the Bond  
10 Resolution; (v) the selection by DTC or any such direct or indirect participant of any  
11 person to receive payment in the event of a partial redemption of the Bonds; or (vi) any  
12 consent given or other action taken by DTC as Registered Owner of the Bonds.  
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15 For so long as the Bonds are registered in the name of DTC or any nominee  
16 thereof, all notices required or permitted to be given to the Registered Owners of such  
17 Bonds under this ordinance or the Bond Resolution shall be given to DTC as provided in  
18 the Letter of Representations.  
19

20 In connection with any notice or other communication to be provided to  
21 Registered Owners pursuant to this ordinance or the Bond Resolution by the City or the  
22 Bond Registrar with respect to any consent or other action to be taken by Registered  
23 Owners of the Bonds, DTC shall consider the date of receipt of notice requesting such  
24 consent or other action as the record date for such consent or other action; however, the  
25 City or the Bond Registrar may establish a special record date for such consent or other  
26

1 action and shall give DTC notice of such special record date not less than fifteen (15)  
2 calendar days in advance of such special record date to the extent practical.

3 Any successor Bond Registrar, in its written acceptance of its duties under this  
4 ordinance and the Bond Resolution, shall agree to take any actions necessary from time to  
5 time to comply with the requirements of any applicable Letter of Representations.

6 The book-entry system for registration of the ownership of the Bonds delivered in  
7 fully immobilized form may be discontinued at any time if: (i) after notice to the City and  
8 the Bond Registrar, DTC determines to resign as Securities Depository for the Bonds; or  
9 (ii) after notice to DTC and the Bond Registrar, the City determines that a continuation of  
10 the system of book-entry transfers through DTC (or through a successor Securities  
11 Depository) is not in the best interests of the City. In each of such events (unless, in the  
12 case described in clause (i) above, the City appoints a successor Securities Depository),  
13 the Bonds shall be delivered in registered certificate form to such persons, and in such  
14 maturities and principal amounts, as may be designated by DTC, but without any liability  
15 on the part of the City or the Bond Registrar for the accuracy of such designation.  
16 Whenever DTC requests the City and the Bond Registrar to do so, or whenever the City  
17 requests DTC and the Bond Registrar to do so after the determination by the City to  
18 replace DTC with a successor Securities Depository, the City and the Bond Registrar  
19 shall cooperate with DTC in taking appropriate action after reasonable notice to arrange  
20 for another Securities Depository to maintain custody of certificates evidencing the  
21 Bonds.  
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25 **Section 6. Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds  
26 issued hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if

1 not then prohibited or otherwise required by law, cause to be executed and delivered a  
2 new Bond of like amount, interest rate, maturity date, series and tenor in exchange and  
3 substitution for and upon cancellation of such mutilated Bonds, or in lieu of and in  
4 substitution for such destroyed, stolen or lost Bonds, upon payment by the Registered  
5 Owner thereof of the reasonable expenses and charges of the City and the Bond Registrar  
6 in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing with  
7 the Bond Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or  
8 lost, and of the ownership thereof, and furnishing the City and the Bond Registrar with  
9 indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond  
10 already has matured or been called for redemption in accordance with its terms it shall not  
11 be necessary to issue a new Bond prior to payment. If the provisions of State law at any  
12 time differ from the provisions of this Section 6 with respect to the requirements or  
13 procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed Bonds,  
14 then the provisions of State law shall prevail.  
15  
16

17 **Section 7. Payment of Bond Principal and Interest.** Principal of, premium, if  
18 any, and interest on the Bonds shall be payable in lawful money of the United States of  
19 America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond  
20 Registrar on the interest payment date to the Registered Owners at the addresses  
21 appearing on the Bond Register on the fifteenth (15th) day of the month preceding the  
22 interest payment date (or other record date established by the Bond Resolution) (the  
23 “Record Date”) or, at the request of a Registered Owner of One Million Dollars  
24 (\$1,000,000) or more in aggregate principal amount of Bonds, by wire transfer to an  
25 account in the United States designated in writing by such Registered Owner prior to the  
26

1 Record Date. Principal of and premium, if any, on the Bonds shall be payable upon  
2 presentation and surrender of the Bonds by the Registered Owners at either of the  
3 principal corporate trust office or offices of the Bond Registrar at the option of the  
4 Registered Owners. Notwithstanding the foregoing, payment of any Bonds registered in  
5 the name of DTC or its nominee shall be made in accordance with the Letter of  
6 Representations.

7  
8 The Bonds shall be payable solely out of the Bond Account and shall not be  
9 general obligations of the City.

10 **Section 8. Redemption and Open Market Purchase of Bonds.**

11 (a) **Optional Redemption.** All or some of the Bonds may be subject to  
12 redemption at the option of the City at the times and on the terms set forth in the Bond  
13 Resolution.

14  
15 (b) **Mandatory Redemption.** The City shall redeem any Term Bonds, if  
16 not redeemed under the optional redemption provisions set forth in the Bond Resolution  
17 or purchased in the open market under the provisions set forth below, by lot (or in such  
18 other manner as the Bond Registrar shall determine) at par plus accrued interest on the  
19 dates and in the years and principal amounts as set forth in the Bond Resolution.

20  
21 If the City redeems Term Bonds under the optional redemption provisions set  
22 forth in the Bond Resolution or purchases Term Bonds in the open market as set forth  
23 below, the Term Bonds so redeemed or purchased (irrespective of their redemption or  
24 purchase price) shall be credited at the par amount thereof against the remaining  
25 mandatory redemption requirements in a manner to be determined by the Director of  
26 Finance or, if no such determination is made, on a pro-rata basis.



1                   (c) **Partial Redemption.** Whenever less than all of the Bonds of a single  
2 maturity are to be redeemed, the Bond Registrar shall select the Bonds or portions thereof  
3 to be redeemed from the Bonds of that maturity by lot, or in such other manner as the  
4 Bond Registrar shall determine, except that, for so long as the Bonds are registered in the  
5 name of DTC or its nominee, DTC shall select the Bonds or portions thereof to be  
6 redeemed in accordance with the Letter of Representations. In no event shall any Bond  
7 be outstanding in a principal amount that is not an authorized denomination.  
8

9                   Portions of the principal amount of any Bond, in integral amounts of Five  
10 Thousand Dollars (\$5,000), may be redeemed, unless otherwise provided in the Bond  
11 Resolution. If less than all of the principal amount of any Bond is redeemed, upon  
12 surrender of that Bond at either of the principal offices of the Bond Registrar, there shall  
13 be issued to the Registered Owner, without charge therefor, a new Bond (or Bonds, at the  
14 option of the Registered Owner) of the same series, maturity and interest rate in any of the  
15 denominations authorized by the Bond Resolution in the aggregate total principal amount  
16 remaining unredeemed.  
17

18                   (d) **Open Market Purchase.** The City reserves the right and option to  
19 purchase any or all of the Bonds in the open market at any time at any price acceptable to  
20 the City plus accrued interest to the date of purchase. The principal amount of Term  
21 Bonds purchased pursuant to this **Section 8** shall be credited at the par amount thereof  
22 against the next mandatory redemption requirement, or as otherwise directed by the  
23 Director of Finance.  
24

25                   (e) **Bonds to be Canceled.** All Bonds purchased or redeemed under this  
26 **Section 8** shall be canceled.

1           **Section 9. Notice of Redemption.** The City shall cause notice of any intended  
2 redemption of Bonds to be given not less than thirty (30) nor more than sixty (60) days  
3 prior to the date fixed for redemption by first-class mail, postage prepaid, to the  
4 Registered Owner of any Bond to be redeemed at the address appearing on the Bond  
5 Register at the time the Bond Registrar prepares the notice, and the requirements of this  
6 sentence shall be deemed to have been fulfilled when notice has been mailed as so  
7 provided, whether or not it is actually received by the Registered Owner of any Bond.  
8 Interest on Bonds called for redemption shall cease to accrue on the date fixed for  
9 redemption unless the Bond or Bonds called are not redeemed when presented pursuant to  
10 the call. In addition, the redemption notice shall be mailed by the Bond Registrar within  
11 the same period, postage prepaid, to each of the Rating Agencies at their offices in New  
12 York, New York, to any Bond Insurer for the Bonds, and to such other persons and with  
13 such additional information as the Director of Finance shall determine or as specified in  
14 the Bond Resolution, but these additional mailings shall not be a condition precedent to  
15 the redemption of Bonds.  
16

17  
18           **Section 10. Failure to Redeem Bonds.** If any Bond is not redeemed when  
19 properly presented at its maturity or call date, the City shall be obligated to pay interest on  
20 that Bond at the same rate provided in the Bond from and after its maturity or call date  
21 until that Bond, principal of, premium, if any and interest, is paid in full or until sufficient  
22 money for its payment in full is on deposit in the Bond Account and the Bond has been  
23 called for payment by giving notice of that call to the Registered Owner of each of those  
24 unpaid Bonds.  
25

26           **Section 11. Form and Execution of Bonds.** The Bonds shall be typed,

1 photocopied, printed or lithographed on good bond paper in a form consistent with the  
2 provisions of this ordinance, the Bond Resolution and State law, shall be signed by the  
3 Mayor and Director of Finance, either or both of whose signatures may be manual or in  
4 facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed  
5 or printed thereon.

6 Only Bonds bearing a Certificate of Authentication in substantially the following  
7 form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose  
8 or entitled to the benefits of this ordinance:  
9

10 **CERTIFICATE OF AUTHENTICATION**

11 This Bond is one of the fully registered The City of Seattle,  
12 Washington, Water System Revenue [and Refunding] Bonds, 2001,  
13 described in the Bond Ordinance.

14 WASHINGTON STATE FISCAL AGENCY  
15 Bond Registrar

16 By: \_\_\_\_\_  
17 Authorized Signer

18 The authorized signing of a Certificate of Authentication shall be conclusive evidence  
19 that the Bond so authenticated has been duly executed, authenticated and delivered and is  
20 entitled to the benefits of this ordinance.

21 If any officer whose facsimile signature appears on the Bonds ceases to be an  
22 officer of the City authorized to sign bonds before the Bonds bearing his or her facsimile  
23 signature are authenticated or delivered by the Bond Registrar or issued by the City, those  
24 Bonds nevertheless may be authenticated, delivered and issued and, when authenticated,  
25 issued and delivered, shall be as binding on the City as though that person had continued  
26 to be an officer of the City authorized to sign bonds. Any Bond also may be signed on

1 behalf of the City by any person who, on the actual date of signing of the Bond, is an  
2 officer of the City authorized to sign bonds, although he or she did not hold the required  
3 office on the date of issuance of the Bonds.

4 **Section 12. Bond Registrar.** The Bond Registrar shall keep, or cause to be kept,  
5 at its principal corporate trust office, sufficient books for the registration and transfer of  
6 the Bonds which shall at all times be open to inspection by the City. The Bond Registrar  
7 is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or  
8 exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as  
9 the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers  
10 and duties under this ordinance and SMC Chapter 5.10 establishing a system of  
11 registration for the City's bonds and obligations, as that chapter now exists or may be  
12 amended.  
13

14  
15 The City reserves the right in its discretion to appoint special paying agents,  
16 registrars or trustees in connection with the payment of some or all of the principal of or  
17 interest on the Bonds. If a new Bond Registrar is appointed by the City, notice of the  
18 name and address of the new Bond Registrar shall be mailed to the Registered Owners of  
19 the Bonds. The notice may be mailed together with the next interest payment due on the  
20 Bonds, but, to the extent practicable, shall be mailed not less than fifteen (15) days prior  
21 to a maturity date of the principal or a mandatory redemption date of any Bond.  
22

23 The Bond Registrar shall be responsible for its representations contained in the  
24 Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may  
25 become the Registered Owner of Bonds with the same rights it would have if it were not  
26 the Bond Registrar and, to the extent permitted by law, may act as depository for and

1 permit any of its officers or directors to act as members of, or in any other capacity with  
2 respect to, any committee formed to protect the rights of the Registered Owners of the  
3 Bonds.

4 **Section 13. Execution of Refunding Plan.**

5 (a) **Appointment of Refunding Trustee.** The Refunding Trustee for  
6 each series of Bonds shall be designated by the Director of Finance and confirmed by the  
7 Bond Resolution.  
8

9 (b) **Use of Bond Proceeds; Acquisition and Substitution of Acquired**  
10 **Obligations.** Sufficient proceeds of the sale of the Bonds shall be deposited immediately  
11 upon the receipt thereof with the Refunding Trustee and used to pay the amounts required  
12 to be paid by the Refunding Plan in order to discharge the obligations of the City relating  
13 to the Refunded Bonds. The Refunding Plan shall be carried out, and proceeds of the  
14 Bonds allocable to refunding purposes shall be applied in accordance with this ordinance,  
15 the Refunded Bond Ordinance, the Bond Resolution and the laws of the State. To the  
16 extent practicable, such obligations shall be discharged fully by the Refunding Trustee's  
17 simultaneous purchase of the Acquired Obligations, bearing such interest and maturing as  
18 to principal and interest in such amounts and at such times so as to provide, together with  
19 a beginning cash balance, if necessary, for the payment of the amount required to be paid  
20 by the Refunding Plan. The Acquired Obligations shall be listed and more particularly  
21 described in a schedule attached to the Refunding Trust Agreement, but are subject to  
22 substitution as set forth below.  
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25 Prior to the purchase of any such Acquired Obligations, the City reserves the right  
26 to substitute other Government Obligations for any of the Acquired Obligations and to

1 use any savings created thereby for any lawful City purpose if, (a) in the opinion of Bond  
2 Counsel, the interest on the Bonds and the Refunded Bonds will remain excluded from  
3 gross income for federal income tax purposes under Sections 103, 148 and 149(d) of the  
4 Code, and (b) such substitution shall not impair the timely payment of the amounts  
5 required to be paid by the Refunding Plan, as verified by a nationally recognized firm of  
6 independent certified public accountants.

7  
8 After the purchase of the Acquired Obligations by the Refunding Trustee, the City  
9 reserves the right to substitute therefor cash or Government Obligations subject to the  
10 conditions that such money or securities held by the Refunding Trustee shall be sufficient  
11 to carry out the Refunding Plan, that such substitution will not cause the Bonds or the  
12 Refunded Bonds to be arbitrage bonds within the meaning of Section 148 of the Code and  
13 regulations thereunder in effect on the date of such substitution and applicable to  
14 obligations issued on the issue date of the Bonds, and that the City obtain:  
15 (1) verification by a nationally recognized independent certified public accounting firm  
16 reasonably acceptable to the Refunding Trustee confirming that the payments of principal  
17 of and interest on the Government Obligations, if paid when due, and any other money  
18 held by the Refunding Trustee will be sufficient to carry out the Refunding Plan; and  
19 (2) an opinion from Bond Counsel to the effect that the disposition and substitution or  
20 purchase of such securities, under the statutes, rules and regulations then in force and  
21 applicable to the Bonds, will not cause the interest on the Bonds or the Refunded Bonds  
22 to be included in gross income for federal income tax purposes and that such disposition  
23 and substitution or purchase is in compliance with the statutes and regulations applicable  
24 to the Bonds. Any surplus money resulting from the sale, transfer, other disposition or  
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redemption of the Acquired Obligations and the substitutions therefor shall be released  
from the trust estate and transferred to the Water Fund to be used for any lawful purpose.

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1                   **(c) Administration of Refunding Plan.** The Refunding Trustee is  
2 authorized and directed to purchase the Acquired Obligations (or substitute obligations)  
3 and to make the payments required to be made by the Refunding Plan from the Acquired  
4 Obligations (or substitute obligations) and money deposited with the Refunding Trustee  
5 pursuant to this ordinance. All Acquired Obligations (or substitute obligations) and the  
6 money deposited with the Refunding Trustee and any income therefrom shall be held  
7 irrevocably, invested and applied in accordance with the provisions of the Refunded Bond  
8 Ordinance, this ordinance, the Bond Resolution, chapter 39.53 RCW and other applicable  
9 statutes of the State of Washington and the Refunding Trust Agreement. All necessary  
10 and proper fees, compensation and expenses of the Refunding Trustee and all other costs  
11 incidental to the setting up of the escrow to accomplish the refunding of the Refunded  
12 Bonds and costs related to the issuance and delivery of the Bonds, including bond  
13 printing, verification fees, Bond Counsel's fees and other related expenses, shall be paid  
14 out of the proceeds of the Bonds.  
15  
16

17                   **(d) Authorization for Refunding Trust Agreement.** To carry out the  
18 Refunding Plan provided for by this ordinance, the Director of Finance is authorized and  
19 directed to execute and deliver to the Refunding Trustee, in connection with each series  
20 of Bonds, a Refunding Trust Agreement in a form that is consistent with this ordinance  
21 and approved by the Resolution and that assures that the escrow provided therein and the  
22 Bonds are in compliance with the requirements of federal law governing the exclusion of  
23 interest on the Bonds from gross income for federal income tax purposes.  
24

25                   **Section 14. Call for Redemption of the Refunded Bonds.** As a part of the  
26 Refunding Plan, the City calls the Refunded Bonds for redemption on the dates and at the



1 prices set forth in the Bond Resolution. Such call for redemption of the Refunded Bonds  
2 shall be irrevocable after the delivery to the initial purchaser thereof of the applicable  
3 series of Bonds. The dates on which the Refunded Bonds are called for redemption shall  
4 be the earliest dates on which those bonds may be called for redemption.

5 The proper officials of the City are authorized and directed to give or cause to be  
6 given such notices as required, at the times and in the manner required pursuant to the  
7 respective Refunded Bond Ordinance in order to effect the redemption prior to maturity  
8 of the Refunded Bonds.  
9

10 **Section 15. City Finding with Respect to Refunding.** The Refunding Plan or  
11 any portion thereof shall be carried out only if the City Council finds and determines by  
12 the Bond Resolution that the issuance and sale of Bonds will effect savings to the City  
13 and its ratepayers and/or otherwise will be in the best interest of the City and in the public  
14 interest. In making such findings and determinations, the City Council shall give  
15 consideration to the fixed maturities and scheduled redemptions of the Bonds, the costs of  
16 issuance of the Bonds and the known earned income from the investment of the proceeds  
17 of the issuance and sale of the Bonds and other money, if any, of the City used in the  
18 Refunding Plan pending payment and redemption of the Refunded Bonds.  
19  
20

21 The Refunding Plan or any portion thereof shall be carried out only if the City  
22 Council further finds and determines that the money to be deposited with the Refunding  
23 Trustee for the Refunded Bonds in accordance with this ordinance and the Bond  
24 Resolution will discharge and satisfy the obligations of the City with respect to the  
25 Refunded Bonds under the respective Refunded Bond Ordinance, and the pledges,  
26 charges, trusts, covenants and agreements of the City therein made or provided for as to

1 the Refunded Bonds, and that the Refunded Bonds shall no longer be deemed to be  
2 outstanding under such ordinance immediately upon the deposit of such money with the  
3 Refunding Trustee.

4 **Section 16. Bond Account.** Ordinance 116705 created the Water Revenue Bond  
5 Account (the “Bond Account”) in the Water Fund and further divided the Bond Account  
6 into two subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount.  
7 So long as any Parity Bonds are outstanding, the City shall set aside and pay into the  
8 Bond Account all ULID Assessments on their collection (except for ULID Assessments  
9 deposited in a construction account) and, out of the Net Revenue, certain fixed amounts  
10 without regard to any fixed proportion, namely:  
11

12 (a) Into the Principal and Interest Subaccount (i) upon receipt  
13 thereof, the accrued interest, if any, received by the City from the  
14 purchaser of the Bonds, and (ii) on or before each interest or principal and  
15 interest payment date of any Parity Bonds at least an amount which,  
16 together with other money on deposit therein, will be sufficient to pay the  
17 interest, or principal and interest, to become due and payable on the Parity  
Bonds on that payment date, including any Parity Bonds subject to  
mandatory redemption on that date, and net payments due on Parity  
Payment Agreements; and

18 (b) Into the Reserve Subaccount, in approximately equal  
19 annual payments, amounts necessary to fund the Reserve Requirement  
20 within five years from the date of issuance of such Parity Bonds after  
21 taking into account the capitalization of all or any part of the Reserve  
Requirement. The City may provide all or any part of the Reserve  
22 Requirement through Reserve Insurance, and the amount available to be  
drawn upon under that Reserve Insurance shall be credited against the  
Reserve Requirement, subject to the following:

23  
24 The Reserve Insurance shall not be cancelable on less than three (3) years’  
25 notice. On receipt of a notice of cancellation of any Reserve Insurance or  
26 upon notice that the entity providing the Reserve Insurance no longer  
meets the requirements specified herein, the City shall substitute Reserve  
Insurance in the amount required to make up the deficiency created in the  
Reserve Subaccount or in the alternative shall create a special account in

1 the Water Fund and deposit therein, on or before the twenty-fifth (25th)  
2 day of each of the thirty-six (36) succeeding calendar months  
3 (commencing with the twenty-fifth (25th) day of the calendar month next  
4 following the date of the notice) one thirty-sixth (1/36th) of the amount  
5 sufficient, together with other money and investments on deposit in the  
6 Reserve Subaccount, to equal the Reserve Requirement in effect as of the  
7 date the cancellation or disqualification of the entity becomes effective.  
8 The required amounts shall be deposited in that special account from  
9 money in the Water Fund after making provision for payment of Operation  
10 and Maintenance Expenses and for required payments into the Bond  
11 Account. Amounts on deposit in that special account shall not be  
12 available to pay debt service on Parity Bonds or for any other purpose of  
13 the City, and shall be transferred to the Reserve Subaccount on the  
14 effective date of any cancellation of a Reserve Insurance to make up all or  
15 part of the deficiency caused thereby. Amounts in that special account or  
16 in the Reserve Subaccount may be transferred back to the Water Fund and  
17 used for any purpose if and when qualifying Reserve Insurance is  
18 obtained.

19 Except for withdrawals therefrom and payments over time as authorized herein,  
20 the Reserve Subaccount shall be maintained at the Reserve Requirement, as it is adjusted  
21 from time to time, at all times so long as any Parity Bonds are outstanding. For the  
22 purpose of determining the amount credited to the Reserve Subaccount, obligations in  
23 which money in the Reserve Subaccount has been invested shall be valued at the greater  
24 of cost or accreted value.

25 In the event that there shall be a deficiency in the Principal and Interest  
26 Subaccount to meet maturing installments of either principal or interest or mandatory  
redemption requirements, as the case may be, that deficiency shall be made up from the  
Reserve Subaccount by the withdrawal of cash therefrom for that purpose. Any  
deficiency created in the Reserve Subaccount by reason of any such withdrawal shall  
within twelve (12) months be made up from ULID Assessments and Net Revenue

1 available after making necessary provisions for the required payments into the Principal  
2 and Interest Subaccount.

3 The money in the Reserve Subaccount may be applied to the payment of the last  
4 outstanding bonds payable out of the Bond Account, except that any money in the  
5 Reserve Subaccount (including investment earnings) in excess of the Reserve  
6 Requirement may be withdrawn and deposited in the Principal and Interest Subaccount  
7 and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund  
8 or account and spent for any other lawful Municipal Water System purpose. When the  
9 total amount in the Bond Account (including investment earnings) shall equal the total  
10 amount of principal and interest for all Parity Bonds to the last maturity thereof, no  
11 further payment need be made into the Bond Account.  
12

13 The City may provide for the purchase, redemption or defeasance of any Parity  
14 Bonds by the use of money on deposit in any subaccount in the Bond Account as long as  
15 the money remaining in those subaccounts is sufficient to satisfy the required deposits in  
16 those subaccounts for the remaining Parity Bonds.  
17

18 All money in the Bond Account may be kept in cash or invested in legal  
19 investments maturing, for investments in the Principal and Interest Subaccount, not later  
20 than the dates when the funds are required for the payment of principal of or interest on  
21 the Parity Bonds and, for investments in the Reserve Subaccount, maturing (or subject to  
22 redemption, or repurchase and redemption, at the option of the City) on a date not later  
23 than fifteen (15) years from the date of investment.  
24

25 Earnings from investments in the Principal and Interest Subaccount shall be  
26 deposited in that account. Earnings from investments in the Reserve Subaccount shall be

1 deposited in that account. Notwithstanding the provisions for the deposit of earnings, any  
2 earnings that are subject to federal arbitrage rebate requirements may be withdrawn from  
3 the Bond Account for deposit into a separate fund or account created for the purpose of  
4 compliance with those rebate requirements.

5 The City may create sinking fund accounts or other accounts in the Bond Account  
6 for the payment or securing the payment of Parity Bonds as long as the maintenance of  
7 such accounts does not conflict with the rights of the owners of such Parity Bonds.  
8

9 **Section 17. Construction Account.** There has been created in the Water Fund  
10 an account known as the Water System Construction Account, within which account is  
11 created a subaccount to be known as the Water System Construction Subaccount, 2001  
12 (the "Construction Account"). The principal proceeds of the sale of the Bonds remaining  
13 after (1) the deposit of accrued interest on the Bonds, if any, into the Principal and  
14 Interest Subaccount and (2) the deposit of any proceeds as determined by the Bond  
15 Resolution into the Reserve Subaccount, shall be deposited into the Construction Account  
16 to be used for the purpose of paying part of the costs of carrying out the Plan of Additions  
17 and to pay for the costs of issuance of the Bonds. Until needed to pay such costs, the City  
18 may invest principal proceeds and interest thereon temporarily in any legal investment,  
19 and the investment earnings may, as determined by the Director of Finance, be retained in  
20 the Construction Account and be spent for the purposes of that fund or deposited in the  
21 Bond Account.  
22  
23

24 **Section 18. Rate Stabilization Account.** The Rate Stabilization Account has  
25 been created in the Water Fund. The City may at any time, as determined by the City and  
26 as consistent with Section 22 of this ordinance, deposit in the Rate Stabilization Account

1 Gross Revenue and any other money received by the Municipal Water System and  
2 available to be used therefor. The City may withdraw any or all of the money from the  
3 Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal  
4 year of the City. Such deposits or withdrawals may be made up to and including the date  
5 ninety (90) days after the end of the fiscal year for which the deposit or withdrawal will  
6 be included as Adjusted Gross Revenue.  
7

8 No deposit of Gross Revenue shall be made into the Rate Stabilization Account to  
9 the extent that such deposit would prevent the City from meeting the Coverage  
10 Requirement in the relevant fiscal year.  
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1           **Section 19. Finding as to Sufficiency of Gross Revenue.** The City finds and  
2 determines that the Gross Revenue and benefits to be derived from the operation and  
3 maintenance of the Municipal Water System of the City at the rates to be charged from  
4 time to time for water and other services and commodities from the Municipal Water  
5 System consistent with Section 21(b) hereof, will be sufficient to meet all Operation and  
6 Maintenance Expenses and to permit the setting aside into the Bond Account out of the  
7 Gross Revenue of amounts sufficient to pay the principal of and interest on the Bonds and  
8 any mandatory redemption requirements when due. The City further declares that in  
9 creating the Bond Account and in fixing the amounts to be paid into the Bond Account it  
10 has exercised due regard for Operation and Maintenance Expenses, and has not bound  
11 and obligated itself to set aside and pay into the Bond Account a greater amount or  
12 proportion of the Gross Revenue than in the judgment of the City will be available over  
13 and above the Operation and Maintenance Expenses.  
14  
15

16           **Section 20. Pledge of Net Revenue and Lien Position.** The Net Revenue of the  
17 Municipal Water System and all money and investments held in the Bond Account, the  
18 Rate Stabilization Account and the Construction Account (except money and investments  
19 held in a separate fund or account created for the purpose of compliance with rebate  
20 requirements under the Code), is pledged to the payment of the Parity Bonds and to make  
21 payments into the Reserve Subaccount required by this ordinance, the Bond Resolution  
22 and Parity Bond Authorizing Ordinances, and this pledge shall constitute a lien and  
23 charge upon the Net Revenue prior and superior to any other charges whatsoever.  
24

25           **Section 21. Parity Bond Covenants.** The City covenants and agrees with the  
26 owner of each Bond at any time outstanding, as follows:

1                   **(a) Operation and Maintenance.** It will at all times maintain, preserve  
2 and keep the properties of the Municipal Water System in good repair, working order and  
3 condition, will make all necessary and proper additions, betterments, renewals and repairs  
4 thereto, and improvements, replacements and extensions thereof so that at all times the  
5 business carried on in connection therewith will be properly and advantageously  
6 conducted, and will at all times operate or cause to be operated the properties of the  
7 Municipal Water System and the business in connection therewith in an efficient manner  
8 and at a reasonable cost.  
9

10                   **(b) Establishment and Collection of Rates and Charges.** It will  
11 establish, maintain and collect rates and charges for services and facilities provided by the  
12 Municipal Water System which will be fair and equitable, and will adjust those rates and  
13 charges from time to time so that:  
14

15                   (1) The Gross Revenue will be sufficient to (i) pay all Operation  
16 and Maintenance Expenses, (ii) pay when due all amounts that the City is obligated to pay  
17 into the Bond Account and the subaccounts therein, and (iii) pay all taxes, assessments or  
18 other governmental charges lawfully imposed on the Municipal Water System or the  
19 revenue therefrom or payments in lieu thereof and any and all other amounts which the  
20 City may now or hereafter become obligated to pay from the Gross Revenue by law or  
21 contract; and  
22

23                   (2) The Adjusted Net Revenue of the Municipal Water System in  
24 each fiscal year will be at least equal to the Coverage Requirement; and  
25  
26



1 (3) Except to aid the poor or infirm and for fire-fighting purposes,  
2 it will not furnish or supply or permit the furnishing or supplying of any service or facility  
3 in connection with the operation of the Municipal Water System free of charge to any  
4 person, firm or corporation, public or private.

5 The failure of the City to comply with subparagraphs (1) and (2) of this paragraph  
6 (b) shall not be an Event of Default as defined in Section 31 of this ordinance if the City  
7 promptly retains an Independent Consulting Engineer to recommend to the City Council  
8 adjustments in the rates of the Municipal Water System necessary to meet the  
9 requirements of those subparagraphs and if the City Council adopts the recommended  
10 modifications within one hundred eighty (180) days of the date the failure became known  
11 to the City Council.  
12

13 (c) **Sale, Transfer or Disposition of the Municipal Water System.** It  
14 will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or  
15 other part of the Municipal Water System or any real or personal property comprising a  
16 part of the Municipal Water System only upon approval by ordinance and only consistent  
17 with one or more of the following:  
18

19 (1) The City in its discretion may carry out such a sale, transfer or  
20 disposition (each, as used in this subparagraph, a “transfer”) if the facilities or property  
21 transferred are not material to the operation of the Municipal Water System, or shall have  
22 become unserviceable, inadequate, obsolete or unfit to be used in the operation of the  
23 Municipal Water System or are no longer necessary, material or useful to the operation of  
24 the Municipal Water System; or  
25  
26

1 (2) The City in its discretion may carry out such a transfer if the  
2 aggregate depreciated cost value of the facilities or property being transferred under this  
3 subparagraph (2) in any fiscal year comprises no more than three percent (3%) of the total  
4 assets of the Municipal Water System; or

5 (3) The City in its discretion may carry out such a transfer if the  
6 City receives from the transferee an amount equal to the fair market value of the portion  
7 of the Municipal Water System transferred. As used in this subparagraph, “fair market  
8 value” means the most probable price that a property should bring in a competitive and  
9 open market under all conditions requisite to a fair sale, the willing buyer and willing  
10 seller each acting prudently and knowledgeably and assuming that the price is not  
11 affected by coercion or undue stimulus. The proceeds of the transfer shall be used (i) to  
12 promptly redeem, or irrevocably set aside for the redemption of, Parity Bonds, and/or  
13 (ii) to provide for part of the cost of additions to and betterments and extensions of the  
14 Municipal Water System. Before any such transfer under this subparagraph (3), the City  
15 must obtain a certificate of an Independent Consulting Engineer to the effect that in his or  
16 her professional opinion, upon such transfer and the use of proceeds of the transfer as  
17 proposed by the City, the remaining Municipal Water System will retain its operational  
18 integrity and the Adjusted Net Revenue of the Municipal Water System will be at least  
19 equal to the Coverage Requirement during the five fiscal years following the fiscal year in  
20 which the transfer is to occur, taking into account, (w) the reduction in revenue resulting  
21 from the transfer; (x) the use of any proceeds of the transfer for the redemption of Parity  
22 Bonds, (y) the Independent Consulting Engineer’s estimate of revenue from customers  
23 anticipated to be served by any additions to and betterments and extensions of the  
24  
25  
26

1 Municipal Water System financed in part by the proposed portion of the proceeds of the  
2 transfer, and (z) any other adjustment permitted in the preparation of a certificate under  
3 Section 23(f)(2) of this ordinance. Before such a transfer, the City also must obtain  
4 confirmation from each of the Rating Agencies to the effect that the rating then in effect  
5 will not be reduced or withdrawn upon such transfer.

6 The amount required to be paid to the City may be reduced by any “equity credits”  
7 or similar amounts based on prior capital contributions or other payments to the City  
8 which, under any contract between the City and the transferee, are allowed as a setoff  
9 against the transfer price that would otherwise be payable to the City.  
10

11  
12 **(d) Liens Upon the Municipal Water System.** Except as otherwise  
13 provided in this ordinance, it will not at any time create or permit to accrue or to exist any  
14 lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof,  
15 prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and  
16 discharge, or cause to be paid and discharged, any and all lawful claims for labor,  
17 materials or supplies which, if unpaid, might become a lien or charge upon the Gross  
18 Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity  
19 Bonds, or which might impair the security of the Parity Bonds.  
20

21 **(e) Books and Accounts.** It will keep proper books, records and accounts  
22 with respect to the operations, income and expenditures of the Municipal Water System  
23 in accordance with generally accepted accounting practices relating to the municipal  
24 utilities and any applicable rules and regulations prescribed by the State, and will cause  
25 those books, records and accounts to be audited on an annual basis by the State Auditor  
26

1 (or, if such audit is not made by the State Auditor within two hundred seventy (270) days  
2 after the close of any fiscal year of the City, by a certified public accountant selected by  
3 the City). It will prepare annual financial and operating statements as soon as practicable  
4 after the close of each fiscal year showing in reasonable detail the financial condition of  
5 the Municipal Water System as of the close of the previous year, and the income and  
6 expenses for such year, including the amounts paid into the Bond Account and into any  
7 and all special funds or accounts created pursuant to the provisions of this ordinance, the  
8 status of all funds and accounts as of the end of such year, and the amounts expended for  
9 maintenance, renewals, replacements and capital additions to the Municipal Water  
10 System. Such statements shall be sent to the owner of any Parity Bonds upon written  
11 request therefor being made to the City. The City may charge a reasonable cost for  
12 providing such financial statements.  
13  
14

15 **(f) Collection of Delinquent Accounts.** On at least an annual basis, it  
16 will determine all accounts that are delinquent and will take such actions as the City  
17 determines are reasonably necessary to enforce payment of those delinquent accounts.

18 **(g) Maintenance of Insurance.** It at all times will carry fire and extended  
19 coverage, public liability and property damage and such other forms of insurance with  
20 responsible insurers and with policies payable to the City on such of the buildings,  
21 equipment, works, plants, facilities and properties of the Municipal Water System as are  
22 ordinarily carried by municipal or privately owned utilities engaged in the operation of  
23 like systems, and against such claims for damages as are ordinarily carried by municipal  
24 or privately owned utilities engaged in the operation of like systems, or it will self-insure  
25 or will participate in an insurance pool or pools with reserves adequate, in the reasonable  
26

1 judgment of the City, to protect the Municipal Water System and the owners of the Parity  
2 Bonds against loss.

3           **(h) Condemnation Awards and Insurance Proceeds.** If the City  
4 receives any condemnation awards or proceeds of an insurance policy in connection with  
5 any loss of or damage to any property of the Municipal Water System, it shall apply the  
6 condemnation award or insurance proceeds, in the City's sole discretion, either (i) to the  
7 cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase  
8 or redemption of Parity Bonds, or (iii) to the cost of improvements to the Municipal  
9 Water System.  
10

11  
12           **Section 22. Flow of Funds.** All ULID Assessments shall be paid into the Bond  
13 Account as provided by this ordinance. The Gross Revenue of the Municipal Water  
14 System shall be used for the following purposes only and shall be applied in the following  
15 order of priority:

- 16           (a) To pay the Operation and Maintenance Expenses;
- 17  
18           (b) To pay interest on Parity Bonds and net payments on Parity  
19 Payment Agreements when due;
- 20           (c) To pay the principal of Parity Bonds as it comes due at  
21 maturity or as the principal is required to be paid pursuant to mandatory  
22 redemption requirements applicable to Term Bonds, and to make  
23 payments due under any reimbursement agreement with a Bond Insurer  
24 which agreement requires those payments to be treated on a parity of lien  
25 with the Parity Bonds;
- 26           (d) To make all payments required to be made into the Reserve  
Subaccount, all payments required to be made under any agreement  
relating to the provision of Reserve Insurance, and payments due under  
any reimbursement agreement with a Bond Insurer which agreement  
requires those payments to be treated on a parity of lien with the payments  
required to be made into the Reserve Subaccount;

1 (e) To make all payments required to be made into any revenue  
2 bond, note, warrant or other revenue obligation redemption fund, debt  
3 service account or reserve account created to pay or secure the payment of  
4 the principal of and interest on any revenue bonds, notes, warrants or other  
5 obligations of the City having a lien upon the revenue of the Municipal  
6 Water System junior and inferior to the lien thereon for the payment of the  
7 principal of and interest on the Parity Bonds; and

6 (f) To retire by redemption or purchase in the open market any  
7 outstanding revenue bonds or other revenue obligations of the Municipal  
8 Water System, to make necessary additional betterments, improvements  
9 and repairs to or extensions and replacements of the Municipal Water  
10 System, to make deposits into the Rate Stabilization Account, or for any  
11 other lawful Municipal Water System purposes.

10 The City may transfer any money from any funds or accounts of the  
11 Municipal Water System legally available therefor, except bond redemption funds,  
12 refunding escrow funds or defeasance funds, to meet the required payments to be made  
13 into the Bond Account.

14 **Section 23. Provisions for Future Parity Bonds.** The City reserves the right to  
15 issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of  
16 the Municipal Water System or to refund a portion of the Parity Bonds if the following  
17 conditions are met and complied with at the time of the issuance of those Future Parity  
18 Bonds or entering into the Parity Payment Agreement:

19 (a) There shall be no deficiency in the Bond Account and no  
20 Event of Default with respect to any Parity Bonds as Event of Default is  
21 defined in Section 31 of this ordinance shall have occurred and be  
22 continuing.

23 (b) The Parity Bond Authorizing Ordinance shall provide that  
24 all assessments and interest thereon that may be levied in any ULID  
25 created for the purpose of paying, in whole or in part, the principal of and  
26 interest on those Future Parity Bonds, shall be paid directly into the Bond  
Account, except for any prepaid assessments permitted by law to be paid  
into a construction fund or account.

1 (c) The Parity Bond Authorizing Ordinance shall provide for  
2 the payment of the principal thereof and interest thereon out of the Bond  
3 Account.

4 (d) The Parity Bond Authorizing Ordinance shall provide for  
5 the payment of amounts into the Bond Account to meet mandatory  
6 redemption requirements applicable to any Term Bonds to be issued and  
7 for regular payments to be made for the payment of the principal of such  
8 Term Bonds on or before their maturity, or, as an alternative, the  
9 mandatory redemption of those Term Bonds prior to their maturity date  
10 from money in the Principal and Interest Subaccount.

11 (e) The Parity Bond Authorizing Ordinance shall provide for  
12 the deposit into the Reserve Subaccount of (i) an amount, if any, necessary  
13 to fund the Reserve Requirement upon the issuance of those Future Parity  
14 Bonds from Future Parity Bond proceeds or other money legally available,  
15 or (ii) Reserve Insurance or an amount plus Reserve Insurance necessary to  
16 fund the Reserve Requirement upon the issuance of those Future Parity  
17 Bonds, or (iii) amounts necessary to fund the Reserve Requirement from  
18 ULID Assessments and Adjusted Net Revenue within five years from the  
19 date of issuance of those Future Parity Bonds, in five approximately equal  
20 annual payments.

21 (f) There shall be on file with the City either:

22 (1) a certificate of the Director of Finance  
23 demonstrating that during any twelve consecutive calendar months  
24 out of the immediately preceding twenty-four (24) calendar months  
25 Adjusted Net Revenue was at least equal to the Coverage  
26 Requirement for all Parity Bonds plus the Future Parity Bonds  
proposed to be issued (and assuming that the debt service of the  
proposed Future Parity Bonds for that twelve-month period was the  
Average Annual Debt Service for those proposed bonds); or

(2) a certificate of both the Director of Finance and the  
Director of Seattle Public Utilities (who has succeeded to  
substantially all of the responsibilities of the Superintendent of the  
Municipal Water System), or any officer who succeeds to  
substantially all of the responsibilities of either office, that in their  
opinion the Adjusted Net Revenue for the five fiscal years next  
following the earlier of (A) the end of the period during which  
interest on those Future Parity Bonds is to be capitalized or, if no  
interest is capitalized, the fiscal year in which the Future Parity  
Bonds are issued, or (B) the date on which substantially all new

1 facilities financed with those Future Parity Bonds are expected to  
2 commence operations, such Adjusted Net Revenue further adjusted  
3 as provided in paragraphs (i) through (iv) below, will be at least  
4 equal to the Coverage Requirement. That certificate may take into  
5 account the following adjustments:

6 (i) Any changes in rates in effect and being  
7 charged, or rates expected to be charged in accordance with  
8 a program of specific rates, rate levels or increases in  
9 overall rate revenue approved by ordinance or resolution;

10 (ii) Net revenue from customers of the  
11 Municipal Water System who have become customers  
12 during the twelve (12) consecutive month period or  
13 thereafter, and their estimate of net revenue from any  
14 customers to be connected to the Municipal Water System  
15 who have paid the required connection charges, adjusted to  
16 reflect one year's net revenue from those customers;

17 (iii) Their estimate of net revenue from  
18 customers anticipated to be served by facilities or  
19 improvements financed in substantial part by those Future  
20 Parity Bonds (or additional Parity Bonds expected to be  
21 issued during the five-year period); and

22 (iv) Net revenue from any person, firm,  
23 corporation or municipal corporation under any executed  
24 contract for water or other utility service, which revenue  
25 was not included in the historical Net Revenue of the  
26 Municipal Water System.

If the Future Parity Bonds proposed to be issued are for the sole  
purpose of refunding Parity Bonds, no such coverage certification shall be  
required if the Adjusted Annual Debt Service on the Parity Bonds after the  
issuance of the Future Parity Bonds is not, for any year in which the Parity  
Bonds being refunded were outstanding, more than Five Thousand Dollars  
(\$5,000) over the Adjusted Annual Debt Service on the Parity Bonds prior  
to the issuance of those Future Parity Bonds.

Nothing contained herein shall prevent the City from issuing Future Parity Bonds  
to refund maturing Parity Bonds, money for the payment of which is not otherwise  
available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate



1 to the charge or lien of the Parity Bonds, or from pledging the payment of ULID  
2 assessments into a bond redemption fund created for the payment of the principal of and  
3 interest on those junior lien bonds as long as such ULID assessments are levied for  
4 improvements constructed from the proceeds of those junior lien bonds.

5 **Section 24. Reimbursement Obligations.** If the City elects to meet the Reserve  
6 Requirement or any portion thereof through the use of Reserve Insurance or elects to  
7 secure any issue of Parity Bonds through the use of Bond Insurance, the City may contract  
8 with the entity providing such Reserve Insurance or Bond Insurance to the effect that the  
9 City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the  
10 Parity Bonds.  
11

12 If provided by the Bond Resolution, if the principal of, interest or mandatory  
13 redemption requirements due on the Bonds is paid by a Bond Insurer pursuant to a Bond  
14 Insurance policy, the Bonds shall not be considered paid by the City, and the covenants,  
15 agreements and other obligations of the City to the Registered Owners shall continue to  
16 exist and the Bond Insurer shall be subrogated to the rights of the Registered Owners.  
17

18 **Section 25. Separate Utility Systems.** The City may create, acquire, construct,  
19 finance, own and operate one or more additional systems for water supply, transmission  
20 or other commodity or service. The revenue of that separate utility system shall not be  
21 included in the Gross Revenue of the Municipal Water System and may be pledged to the  
22 payment of revenue obligations issued to purchase, construct, condemn or otherwise  
23 acquire or expand the separate utility system. Neither the Gross Revenue nor the Net  
24 Revenue of the Municipal Water System shall be pledged by the City to the payment of  
25 any obligations of a separate utility system except (1) as a Contract Resource Obligation  
26

1 upon compliance with Section 26 hereof and/or (2) with respect to the Net Revenue, on a  
2 basis subordinate to the lien of the Parity Bonds on that Net Revenue.

3 **Section 26. Contract Resource Obligations.** The City may at any time enter  
4 into one or more Contract Resource Obligations for the acquisition, from facilities to be  
5 constructed, of water supply, transmission or other commodity or service relating to the  
6 Municipal Water System. The City may determine that, and may agree under a Contract  
7 Resource Obligation to provide that, all payments under that Contract Resource  
8 Obligation (including payments prior to the time that water supply or transmission or  
9 other commodity or service is being provided, or during a suspension or after termination  
10 of supply or service) shall be Operation and Maintenance Expenses if the following  
11 requirements are met at the time such a Contract Resource Obligation is entered into:  
12

13 (a) No Event of Default as defined in Section 31 of this  
14 ordinance has occurred and is continuing.

15 (b) There shall be on file a certificate of an Independent  
16 Consulting Engineer stating that (i) the payments to be made by the City in  
17 connection with the Contract Resource Obligation are reasonable for the  
18 supply or transmission rendered; (ii) the source of any new supply, and any  
19 facilities to be constructed to provide the supply or transmission, are sound  
20 from a water or other commodity supply or transmission planning  
21 standpoint, are technically and economically feasible in accordance with  
22 prudent utility practice, and are likely to provide supply or transmission no  
23 later than a date set forth in the Independent Consulting Engineer's  
24 certification; and (iii) the Adjusted Net Revenue (further adjusted by the  
25 Independent Consulting Engineer's estimate of the payments to be made in  
26 accordance with the Contract Resource Obligation) for the five fiscal years  
following the year in which the Contract Resource Obligation is incurred,  
as such Adjusted Net Revenue is estimated by the Independent Consulting  
Engineer in accordance with the provisions of and adjustments permitted  
in Section 23(f)(2) of this ordinance, will be at least equal to the Coverage  
Requirement.

1           Payments required to be made under Contract Resource Obligations shall not be  
2 subject to acceleration.

3           Nothing in this Section 26 shall be deemed to prevent the City from entering into  
4 other agreements for the acquisition of water supply, transmission or other commodity or  
5 service from existing facilities and from treating those payments as Operation and  
6 Maintenance Expenses. Nothing in this Section 26 shall be deemed to prevent the City  
7 from entering into other agreements for the acquisition of water supply, transmission or  
8 other commodity or service from facilities to be constructed and from agreeing to make  
9 payments with respect thereto, such payments constituting a lien and charge on Net  
10 Revenue subordinate to that of Parity Bonds.  
11

12           **Section 27. Preservation of Tax Exemption for Interest on Bonds.** The City  
13 covenants that it will take all actions consistent with the terms of the Bonds, this  
14 ordinance and the Bond Resolution reasonably within its power and necessary to prevent  
15 interest on the Bonds from being included in gross income for federal income tax  
16 purposes and it will neither take any action nor make or permit any use of the proceeds of  
17 the Bonds or other funds of the City treated as proceeds of the Bonds at any time during  
18 the term of the Bonds which will cause interest on the Bonds to be included in gross  
19 income for federal income tax purposes.  
20  
21

22           The City has not been notified of any listing or proposed listing by the Internal  
23 Revenue Service to the effect that the City is a bond issuer whose arbitrage certifications  
24 may not be relied upon.

25           **Section 28. Continuing Disclosure.** The City shall undertake to provide for the  
26 benefit of holders of the Bonds disclosure of certain financial information and operating

1 data of the type included in the final official statement for the Bonds, as well as disclosure  
2 of certain material events respecting the Bonds, in the manner and to the extent required  
3 by United States Securities and Exchange Commission Rule 15c2-12(b)(5). The  
4 particular terms of the Undertaking shall be set forth in the Bond Resolution.

5 **Section 29. Advance Refunding or Defeasance of Bonds.** The City may issue  
6 advance refunding bonds pursuant to the laws of the State or use money available from  
7 any other lawful source to pay the principal of and interest on the Bonds, or such portion  
8 thereof included in a refunding or defeasance plan, as the same become due and payable  
9 and to redeem and retire, release, refund or defease the Bonds (the "Defeased Bonds")  
10 and to pay the costs of such refunding or defeasance. In the event that money and/or  
11 Government Obligations sufficient in amount, together with known earned income from  
12 the investments thereof, to redeem and retire, release, refund or defease the defeased  
13 Bonds in accordance with their terms, are set aside irrevocably in a special fund for and  
14 pledged irrevocably to such redemption, retirement or defeasance (the "trust account"),  
15 then all right and interest of the owners of the defeased Bonds in the covenants of this  
16 ordinance and in the Net Revenue and the funds and accounts pledged to the payment of  
17 such defeased Bonds, other than the right to receive the funds so set aside and pledged,  
18 thereafter shall cease and become void. Such owners thereafter shall have the right to  
19 receive payment of the principal of and interest or redemption price on the defeased  
20 Bonds from the trust account.  
21

22 After the establishing and full funding of such a trust account, the City then may  
23 apply any money in any other fund or account established for the payment or redemption  
24  
25  
26

1 of the defeased Bonds to any lawful purposes as it shall determine, subject only to the  
2 rights of the owners of any other Parity Bonds.

3 If the refunding plan provides that the defeased Bonds to be issued be secured by  
4 money and/or Government Obligations pending the prior redemption of the defeased  
5 Bonds and if such refunding plan also provides that certain money and/or Government  
6 Obligations are pledged irrevocably for the prior redemption of the defeased Bonds  
7 included in that refunding plan, then only the debt service on the Bonds which are not  
8 defeased Bonds and the refunding bonds, the payment of which is not so secured by the  
9 refunding plan, shall be included in the computation of the Coverage Requirement for the  
10 issuance of Future Parity Bonds and the annual computation of the Coverage  
11 Requirement for determining compliance with the rate covenants.  
12

13 **Section 30. Amendatory and Supplemental Ordinances.**  
14

15 (a) This ordinance shall not be modified or amended in any respect  
16 subsequent to the initial issuance of the Bonds, except as provided in and in accordance  
17 with and subject to the provisions of this Section 30.

18 (b) The City, from time to time, and at any time, without the consent of or  
19 notice to the owners of the Bonds, may pass supplemental or amendatory ordinances as  
20 follows:  
21

22 (1) To cure any formal defect, omission, inconsistency or ambiguity in  
23 this ordinance in a manner not adverse to the owner of any Parity Bond;

24 (2) To impose upon the Bond Registrar (with its consent) for the  
25 benefit of the owners of the Bonds any additional rights, remedies, powers, authority,  
26

1 security, liabilities or duties which may lawfully be granted, conferred or imposed and  
2 which are not contrary to or inconsistent with this ordinance as therefore in effect;

3 (3) To add to the covenants and agreements of, and limitations and  
4 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and  
5 restrictions to be observed by the City which are not contrary or inconsistent with this  
6 ordinance as therefore in effect;

7 (4) To confirm, as further assurance, any pledge under, and the  
8 subjection to any claim, lien or pledge created or to be created by this ordinance of any  
9 other money, securities or funds;

10 (5) To authorize different denominations of the Bonds and to make  
11 correlative amendments and modifications to this ordinance regarding exchangeability of  
12 Bonds of different authorized denominations, redemptions of portions of Bonds of  
13 particular authorized denominations and similar amendments and modifications of a  
14 technical nature;

15 (6) To modify, alter, amend or supplement this ordinance in any other  
16 respect which is not materially adverse to the owners of the Parity Bonds and which does  
17 not involve a change described in Section 30(c);

18 (7) Because of change in federal law or rulings, to maintain the  
19 exclusion from gross income of the interest on the Bonds from federal income taxation;  
20 and

21 (8) To add to the covenants and agreements of, and limitations and  
22 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and  
23 restrictions to be observed by the City which are requested by a Bond Insurer or provider  
24  
25  
26

1 of Reserve Insurance and which are not materially adverse to the owners of the Parity  
2 Bonds.

3 Before the City shall adopt any such supplemental ordinance pursuant to this  
4 Section 30(b), there shall have been delivered to the City and the Bond Registrar an  
5 opinion of Bond Counsel, stating that such supplemental ordinance is authorized or  
6 permitted by this ordinance and, upon the execution and delivery thereof, will be valid  
7 and binding upon the City in accordance with its terms and will not adversely affect the  
8 exclusion from gross income for federal income tax purposes of interest on the Bonds.  
9

10 (c) (1) Except for any supplemental ordinance entered into pursuant to  
11 Section 30(b), subject to the terms and provisions contained in this Section 30(c) and not  
12 otherwise, Registered Owners of not less than sixty percent (60%) in aggregate principal  
13 amount of the Parity Bonds shall have the right from time to time to consent to and  
14 approve the passage by the City of any supplemental ordinance deemed necessary or  
15 desirable by the City for the purpose of modifying, altering, amending, supplementing or  
16 rescinding, in any particular, any of the terms or provisions contained in this ordinance;  
17 except that, unless approved in writing by the Registered Owners of all Parity Bonds,  
18 nothing contained in this Section 30 shall permit, or be construed as permitting:  
19

20  
21 (i) A change in the times, amounts or currency of  
22 payment of the principal of or interest on any outstanding Parity  
23 Bond, or a reduction in the principal amount or redemption price of  
24 any outstanding Parity Bond or a change in the redemption price of  
any outstanding Parity Bond or a change in the method of  
determining the rate of interest thereon, or

25 (ii) A preference or priority of any Parity Bond or  
26 Bonds or any other bond or bonds, or

1 (iii) A reduction in the aggregate principal amount of  
2 Parity Bonds, the consent of the Registered Owners of which is  
3 required for any such supplemental ordinance.

4 (2) If at any time the City shall pass any supplemental ordinance for  
5 any of the purposes of this Section 30(c), the Bond Registrar shall cause notice of the  
6 proposed supplemental ordinance to be given by first-class United States mail to all  
7 Registered Owners of the Parity Bonds, to any Bond Insurer, and to the Rating Agencies  
8 if the Bonds are rated by those agencies. Such notice shall briefly set forth the nature of  
9 the proposed supplemental ordinance and shall state that a copy thereof is on file at the  
10 office of the Bond Registrar for inspection by all Registered Owners of the Parity Bonds.

11 (3) Within two years after the date of the mailing of such notice, the  
12 City may adopt such supplemental ordinance in substantially the form described in such  
13 notice, but only if there shall have first been delivered to the Bond Registrar (i) the  
14 required consents, in writing, of the Registered Owners of the Parity Bonds, and (ii) an  
15 opinion of bond counsel stating that such supplemental ordinance is authorized or  
16 permitted by this ordinance and, upon the execution and delivery thereof, will be valid  
17 and binding upon the City in accordance with its terms and will not adversely affect the  
18 exclusion from gross income for federal income tax purposes of interest on the Parity  
19 Bonds.  
20

21 (4) If Registered Owners of not less than the percentage of Parity  
22 Bonds required by this Section 30(c) shall have consented to and approved the execution  
23 and delivery thereof as herein provided, no owner of the Parity Bonds shall have any right  
24 to object to the passage of such supplemental ordinance, or to object to any of the terms  
25 and provisions contained therein or the operation thereof, or in any manner to question  
26



1 the propriety of the passage thereof, or to enjoin or restrain the City or the Bond Registrar  
2 from passing the same or from taking any action pursuant to the provisions thereof.

3 (d) Upon the execution and delivery of any supplemental ordinance pursuant  
4 to the provisions of this Section 30, this ordinance shall be, and be deemed to be,  
5 modified and amended in accordance therewith, and the respective rights, duties and  
6 obligations under this ordinance of the City, the Bond Registrar and all owners of Parity  
7 Bonds, shall thereafter be determined, exercised and enforced under this ordinance  
8 subject in all respects to such modifications and amendments.  
9

10 **Section 31. Defaults and Remedies.**

11 (a) **Events of Default.** The following shall constitute “Events of Default”  
12 with respect to the Bonds:

13 (1) If a default is made in the payment of the principal of or  
14 interest on any of the Bonds when the same shall become due and payable; or  
15

16 (2) If the City defaults in the observance and performance of any  
17 other of the covenants, conditions and agreements on the part of the City set forth in this  
18 ordinance or any covenants, conditions or agreements on the part of the City contained in  
19 any Parity Bond Authorizing Ordinance and such default or defaults have continued for a  
20 period of six months after the City has received from the Bond Owners’ Trustee (as  
21 defined below) or from the Registered Owners of not less than twenty-five percent (25%)  
22 in principal amount of the Parity Bonds, a written notice specifying and demanding the  
23 cure of such default. However, if the default in the observance and performance of any  
24 other of the covenants, conditions and agreements is one which cannot be completely  
25 remedied within the six (6) months after written notice has been given, it shall not be an  
26

1 Event of Default with respect to the Bonds as long as the City has taken active steps  
2 within the six (6) months after written notice has been given to remedy the default and is  
3 diligently pursuing such remedy.

4 (3) If the City files a petition in bankruptcy or is placed in  
5 receivership under any state or federal bankruptcy or insolvency law.

6 (b) **Bond Owners' Trustee.** So long as such Event of Default has not  
7 been remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the  
8 Registered Owners of twenty-five percent (25%) in principal amount of the Parity Bonds,  
9 by an instrument or concurrent instruments in writing signed and acknowledged by such  
10 Registered Owners of the Parity Bonds or by their attorneys-in-fact duly authorized and  
11 delivered to such Bond Owners' Trustee, notification thereof being given to the City.  
12 That appointment shall become effective immediately upon acceptance thereof by the  
13 Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of  
14 this Section (b) shall be a bank or trust company organized under the laws of the State of  
15 Washington or the State of New York or a national banking association. The bank or  
16 trust company acting as Bond Owners' Trustee may be removed at any time, and a  
17 successor Bond Owners' Trustee may be appointed, by the Registered Owners of a  
18 majority in principal amount of the Parity Bonds, by an instrument or concurrent  
19 instruments in writing signed and acknowledged by such Registered Owners of the Bonds  
20 or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require  
21 such security and indemnity as may be reasonable against the costs, expenses and  
22 liabilities that may be incurred in the performance of its duties.  
23  
24  
25  
26

1 In the event that any Event of Default in the sole judgment of the Bond Owners'  
2 Trustee is cured and the Bond Owners' Trustee furnishes to the City a certificate so  
3 stating, that Event of Default shall be conclusively deemed to be cured and the City, the  
4 Bond Owners' Trustee and the Registered Owners of the Parity Bonds shall be restored to  
5 the same rights and position which they would have held if no Event of Default had  
6 occurred.

7  
8 The Bond Owners' Trustee appointed in the manner herein provided, and each  
9 successor thereto, is declared to be a trustee for the Registered Owners of all the Parity  
10 Bonds and is empowered to exercise all the rights and powers herein conferred on the  
11 Bond Owners' Trustee.

12 (c) **Suits at Law or in Equity.** Upon the happening of an Event of  
13 Default and during the continuance thereof, the Bond Owners' Trustee may, and upon the  
14 written request of the Registered Owners of not less than twenty-five percent (25%) in  
15 principal amount of the Parity Bonds outstanding shall, take such steps and institute such  
16 suits, actions or other proceedings, all as it may deem appropriate for the protection and  
17 enforcement of the rights of the Registered Owners of the Parity Bonds, to collect any  
18 amounts due and owing to or from the City, or to obtain other appropriate relief, and may  
19 enforce the specific performance of any covenant, agreement or condition contained in  
20 this ordinance or in any of the Parity Bonds.  
21  
22

23 Nothing contained in this Section 31 shall, in any event or under any  
24 circumstance, be deemed to authorize the acceleration of maturity of principal on the  
25 Parity Bonds, and the remedy of acceleration is expressly denied to the Registered  
26

1 Owners of the Parity Bonds under any circumstances including, without limitation, upon  
2 the occurrence and continuance of an Event of Default.

3 Any action, suit or other proceedings instituted by the Bond Owners' Trustee  
4 hereunder shall be brought in its name as trustee for the Bond owners and all such rights  
5 of action upon or under any of the Parity Bonds or the provisions of this ordinance may  
6 be enforced by the Bond Owners' Trustee without the possession of any of those Parity  
7 Bonds and without the production of the same at any trial or proceedings relative thereto  
8 except where otherwise required by law. Any such suit, action or proceeding instituted  
9 by the Bond Owners' Trustee shall be brought for the ratable benefit of all of the  
10 Registered Owners of those Parity Bonds, subject to the provisions of this ordinance. The  
11 respective Registered Owners of the Parity Bonds, by taking and holding the same, shall  
12 be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true and  
13 lawful trustee of the respective Registered Owners of those Parity Bonds, with authority  
14 to institute any such action, suit or proceeding; to receive as trustee and deposit in trust  
15 any sums becoming distributable on account of those Parity Bonds; to execute any paper  
16 or documents for the receipt of money; and to do all acts with respect thereto that the  
17 Registered Owner himself or herself might have done in person. Nothing herein shall be  
18 deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt,  
19 on behalf of any Registered Owner of the Parity Bonds, any plan of reorganization or  
20 adjustment affecting the Parity Bonds or any right of any owner thereof, or to authorize or  
21 empower the Bond Owners' Trustee to vote the claims of the Registered Owners thereof  
22 in any receivership, insolvency, liquidation, bankruptcy, reorganization or other  
23 proceeding to which the City is a party.  
24  
25  
26

**(d) Application of Money Collected by Bond Owners' Trustee.** Any

money collected by the Bond Owners' Trustee at any time pursuant to this Section 31 shall be applied in the following order of priority:

(i) first, to the payment of the charges, expenses, advances and compensation of the Bond Owners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

(ii) second, to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) third, to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

**(e) Duties and Obligations of Bond Owners' Trustee.** The Bond

Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful

1 misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined  
2 solely by the express provisions of this ordinance, and no implied powers, duties or  
3 obligations of the Bond Owners' Trustee shall be read into this ordinance.

4 The Bond Owners' Trustee shall not be required to expend or risk its own funds  
5 or otherwise incur individual liability in the performance of any of its duties or in the  
6 exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result  
7 from its own negligent action, its own negligent failure to act or its own willful  
8 misconduct.  
9

10 The Bond Owners' Trustee shall not be bound to recognize any person as a  
11 Registered Owner of any Bond until his title thereto, if disputed, has been established to  
12 its reasonable satisfaction.  
13

14 The Bond Owners' Trustee may consult with counsel and the opinion of such  
15 counsel shall be full and complete authorization and protection in respect of any action  
16 taken or suffered by it hereunder in good faith and in accordance with the opinion of such  
17 counsel. The Bond Owners' Trustee shall not be answerable for any neglect or default of  
18 any person, firm or corporation employed and selected-by it with reasonable care.  
19

20 (f) **Suits by Individual Bond Owners Restricted.** No owner of any one  
21 or more of Parity Bonds shall have any right to institute any action, suit or proceeding at  
22 law or in equity for the enforcement of same unless:

23 (i) an Event of Default has happened and is  
24 continuing;

25 (ii) a Bond Owners' Trustee has been appointed;  
26

1 (iii) such owner previously shall have given to  
2 the Bond Owners' Trustee written notice of the Event of Default on  
account of which such suit, action or proceeding is to be instituted;

3 (iv) the Registered Owners of twenty-five  
4 percent (25%) in principal amount of the Parity Bonds, after the  
5 occurrence of such Event of Default, has made written request of the Bond  
6 Owners' Trustee and have afforded the Bond Owners' Trustee a  
reasonable opportunity to institute such suit, action or proceeding;

7 (v) there have been offered to the Bond Owners'  
8 Trustee security and indemnity satisfactory to it against the costs, expenses  
and liabilities to be incurred therein or thereby; and

9 (vi) the Bond Owners' Trustee has refused or  
10 neglected to comply with such request within a reasonable time.

11 No owner of any Parity Bond shall have any right in any manner whatever by his  
12 action to affect or impair the obligation of the City to pay from the Net Revenue the  
13 principal of and interest on such Parity Bonds to the respective Registered Owners thereof  
14 when due.

15 (g) **Failure to Comply With Undertaking.** Notwithstanding anything in  
16 this Section 31 to the contrary, the failure of the City or any obligated person to comply  
17 with the Undertaking adopted by the Bond Resolution pursuant to Section 28 shall not  
18 constitute an Event of Default hereunder, and the sole remedy of any holder of a Bond  
19 shall be to seek an order of specific performance from an appropriate court to compel the  
20 City to comply with the Undertaking.

22 **Section 32. Sale of Bonds.** The Director of Finance may provide for the sale of  
23 the Bonds by public sale or by a negotiated sale with the underwriters chosen through a  
24 selection process determined by the Director of Finance. The terms of that sale shall be  
25 consistent with this ordinance and confirmed by the Bond Resolution. The Bonds will be  
26

1 delivered, at the City's expense, to the purchasers as provided in the Bond Resolution  
2 immediately upon payment to the City of the purchase price plus accrued interest to the  
3 date of closing in immediately available federal funds in Seattle, Washington, or at  
4 another time or place upon which the Director of Finance and the purchasers may  
5 mutually agree at the purchasers' expense.

6 CUSIP numbers will be printed on the Bonds, but neither failure to print CUSIP  
7 numbers on any Bond nor error with respect thereto shall constitute cause for a failure or  
8 refusal by the Purchasers to accept delivery of and pay for the Bonds in accordance with  
9 the purchase offer. All expenses in relation to the printing of CUSIP numbers on the  
10 Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the  
11 assignment of those numbers shall be the responsibility of and shall be paid by the  
12 purchasers.  
13

14 The City will cause the Bonds to be typed, photocopied, printed or lithographed,  
15 sealed and executed and will furnish the approving legal opinion of Bond Counsel, the  
16 opinion also being printed on each Bond unless the Bond is typed or photocopied.  
17

18 **Section 33. Temporary Bond.** Pending the printing, execution and delivery to  
19 the purchasers of the definitive Bonds, the City may cause to be executed and delivered to  
20 the purchasers a single temporary Bond in the total principal amount of the Bonds. The  
21 temporary Bond shall bear the same date of issuance, interest rates, principal payment  
22 dates and terms and covenants as the definitive Bonds, shall be issued as a fully registered  
23 Bond in the name of the purchasers, and shall be in such form as acceptable to the  
24 purchasers. Such temporary Bond shall be exchanged for the definitive Bonds as soon as  
25 the same are printed, executed and available for delivery.  
26



1           **Section 34. Bonds Negotiable.** The Bonds shall be negotiable instruments to the  
2 extent provided by RCW 62A.8-102 and 62A.8-105.

3           **Section 35. General Authorization.** The Mayor and the Director of Finance of  
4 the City and each of the other appropriate officers of the City are each authorized and  
5 directed to do everything as in their judgment may be necessary, appropriate or desirable  
6 in order to carry out the terms and provisions of, and complete the transactions  
7 contemplated by, this ordinance. In particular, and without limitation, the Director of  
8 Finance may, in his or her discretion and without further action by the City Council, (i)  
9 deem final any preliminary official statement or official statement relating to the Bonds,  
10 (ii) comply with any continuing disclosure requirements applicable to the Bonds and (iii)  
11 change the Bond Registrar or any securities depository appointed for the Bonds.  
12

13           **Section 36. Severability.** The provisions of this ordinance are declared to be  
14 separate and severable. If a court of competent jurisdiction, all appeals having been  
15 exhausted or all appeal periods having run, finds any provision of this ordinance to be  
16 invalid or unenforceable as to any person or circumstance, such offending provision shall,  
17 if feasible, be deemed to be modified to be within the limits of enforceability or validity.  
18 However, if the offending provision cannot be so modified, it shall be null and void with  
19 respect to the particular person or circumstance, and all other provisions of this ordinance  
20 in all other respects, and the offending provision with respect to all other persons and all  
21 other circumstances, shall remain valid and enforceable.  
22

23           **Section 37. Ratification of Prior Acts.** Any action taken consistent with the  
24 authority but prior to the effective date of this ordinance, including, if applicable, but not  
25  
26

1 limited to giving notices of the sale of Bonds, adopting the Bond Resolution, executing  
2 contracts, making fund transfers and paying warrants, is ratified, approved and confirmed.

3 **Section 38. Section Headings.** The Section headings in this ordinance are used  
4 for convenience only and shall not constitute a substantive portion of this ordinance.

5 **Section 39. Effective Date.** This ordinance shall take effect and be in force  
6 thirty (30) days from and after its approval by the Mayor, but if not approved by the  
7 Mayor and returned by the Mayor within ten (10) days after presentation, it shall take  
8 effect as provided by Municipal Code Section 1.04.020.  
9

10 Passed by the City Council the \_\_\_\_ day of \_\_\_\_\_, 2001, and signed by  
11 me in open session in authentication of its passage this \_\_\_\_ day of \_\_\_\_\_,  
12 2001.  
13

14 \_\_\_\_\_  
President of the City Council

15 Approved by me this \_\_\_\_ day of \_\_\_\_\_, 2001.  
16

17 \_\_\_\_\_  
Mayor

18 Filed by me this \_\_\_\_ day of \_\_\_\_\_, 2001.  
19

20 \_\_\_\_\_  
City Clerk  
21  
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23 (SEAL)  
24  
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**APPENDIX B**

**FORM OF BOND COUNSEL OPINION**

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[FORM OF APPROVING LEGAL OPINION]

The City of Seattle

Re:    The City of Seattle, \$52,525,000  
       Water System Revenue Bonds, 2001

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 120547 and Resolution 30419 of the City (collectively, the "Bond Legislation") to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the Municipal Water System, to refund all or a portion of the Refundable Bonds, to satisfy the Reserve Requirement, and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Bonds are dated November 1, 2001, are in the denominations, bear interest payable on the dates and at the rates, mature at the times and in the amounts, have such prepayment or redemption provisions and have such other provisions as are set forth in the Bond Legislation.

The Bonds are special limited obligations of the City payable solely out of the Water Revenue Bond Account (the "Bond Account"), into which account the City irrevocably has bound itself to pay all ULID Assessments upon their collection (except for ULID Assessments deposited in a construction account) and certain fixed amounts out of the Net Revenue of the Municipal Water System, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Parity Bonds as they respectively become due and to satisfy the Reserve Requirement, all at the times and in the manner set forth in the Bond Legislation.

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ANCHORAGE  
Alaska

PORTLAND  
Oregon

SEATTLE  
Washington

SPOKANE  
Washington

The Net Revenue of the Municipal Water System and all money and investments in the Bond Account (including the Reserve Subaccount therein), the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) have been pledged to the payment of the Parity Bonds and to make payments into the Bond Account required by the Bond Ordinance and Parity Bond Authorizing Ordinances, and this pledge constitutes a lien and charge upon the Net Revenue on a parity of lien and charge with the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other charges whatsoever.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Municipal Water System and money in the Bond Account, including the Reserve Subaccount therein, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;
4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

## **APPENDIX C**

### **2000 AUDITED FINANCIAL STATEMENTS OF THE WATER SYSTEM**



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## **SEATTLE PUBLIC UTILITIES – WATER FUND**

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FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2000 AND 1999, AND  
INDEPENDENT AUDITORS' REPORT

**Deloitte & Touche LLP**

## **INDEPENDENT AUDITORS' REPORT**

Director  
Seattle Public Utilities – Water Fund  
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities – Water Fund (the Fund) as of December 31, 2000 and 1999, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 6, 2001

## SEATTLE PUBLIC UTILITIES – WATER FUND

### BALANCE SHEETS

DECEMBER 31, 2000 AND 1999

Construction in progress	134,421,110	235,519,625
Land and land rights	13,477,135	11,368,375
Nonoperating property	408,863	617,899
	<u>725,940,610</u>	<u>654,099,255</u>
RESTRICTED ASSETS:		
Rate Stabilization Fund – Cash and equity in pooled investments	4,252,000	
Construction Fund – Cash and equity in pooled investments	50,433,848	134,545,843
Vendor deposits – Cash and equity in pooled investments	1,457,510	1,722,883
	<u>56,143,358</u>	<u>136,268,726</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	8,403,176	3,144,549
Accounts receivable, net of allowances for doubtful accounts of \$51,535 and \$30,254	8,839,238	6,455,805
Unbilled receivables	4,664,204	3,736,701
Due from other City funds	2,628,142	5,005,170
Due from other governments	57,751	61,697
Materials and supplies inventory	4,745,551	4,712,975
Current portion of notes and contracts receivable	2,552	
Prepayments and other	14,683	33,529
	<u>29,355,297</u>	<u>23,150,426</u>
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs, net	4,188,911	4,434,891
Notes and contracts receivable	145,514	900,992
Deferred conservation costs, net	8,618,857	5,361,414
Other deferred charges	21,688,914	13,629,161
	<u>34,642,196</u>	<u>24,326,458</u>
TOTAL	<u>\$ 846,081,461</u>	<u>\$ 837,844,865</u>

See notes to financial statements.

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**EQUITY AND LIABILITIES****2000****1999****EQUITY:**

Retained earnings	\$ 107,552,368	\$ 86,824,320
Contributions in aid of construction	<u>148,640,604</u>	<u>143,457,411</u>

256,192,972 230,281,731

**REVENUE BONDS:**

Revenue bonds, due serially	572,560,000	587,740,000
Less revenue bonds due within one year	(17,595,000)	(15,180,000)
Less bond discount and premium, net	(6,176,041)	(6,642,288)
Less deferred charges on advanced refunding	<u>(7,450,566)</u>	<u>(8,138,552)</u>

541,338,393 557,779,160

**NONCURRENT AND OTHER LIABILITIES:**

Public works trust loan – Noncurrent	1,418,601	1,536,817
Claims payable – Noncurrent	2,281,942	1,937,624
Environmental liability	1,970,989	2,325,842
Vendor deposits payable	1,634,949	1,794,372
Other noncurrent liabilities	<u>741,910</u>	<u>984,690</u>

8,048,391 8,579,345

**CURRENT LIABILITIES:**

Accounts payable	5,799,189	7,400,020
Accrued payroll and payroll taxes payable	929,746	1,192,801
Accrued taxes payable	50,202	79,822
Compensated absences payable	2,753,256	2,876,985
Due to other City funds	4,801,555	7,376,511
Claims payable – Current	620,340	659,165
Revenue bonds due within one year	17,595,000	15,180,000
Public works trust loan due within one year	118,217	118,217
Accrued interest payable	7,792,832	6,321,108
Other current liabilities	<u>41,368</u>	

40,501,705 41,204,629

**TOTAL**

\$ 846,081,461 \$ 837,844,865

# SEATTLE PUBLIC UTILITIES – WATER FUND

## STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
OPERATING REVENUES:		
Direct service	\$ 71,059,676	\$ 58,147,793
Wholesale	33,121,430	27,114,287
Other	<u>1,177,201</u>	<u>992,719</u>
	105,358,307	86,254,799
OPERATING EXPENSES:		
Resource management	16,309,687	16,068,219
Field operations	10,858,697	11,274,225
Engineering services	2,939,934	2,083,178
Customer services	6,526,697	5,936,903
General and administrative	7,691,019	10,022,476
City business and occupation taxes	6,890,171	5,670,495
Other taxes	3,684,762	3,186,323
Depreciation and amortization	<u>18,424,697</u>	<u>19,625,179</u>
	<u>73,325,664</u>	<u>73,866,998</u>
Net operating income	32,032,643	12,387,801
OTHER INCOME (EXPENSES):		
Investment and interest income	7,106,312	1,948,977
Interest expense	(18,291,928)	(15,946,706)
Amortization of debt expenses	(1,400,213)	(1,396,032)
Operating grant income	27,319	
Gain (loss) on sale of capital assets	(1,041,303)	4,743
Other, net	<u>2,295,218</u>	<u>(411,213)</u>
	<u>(11,304,595)</u>	<u>(15,800,231)</u>
NET INCOME (LOSS)	20,728,048	(3,412,430)
RETAINED EARNINGS:		
Beginning of year	<u>86,824,320</u>	<u>90,236,750</u>
End of year	<u>\$ 107,552,368</u>	<u>\$ 86,824,320</u>

# SEATTLE PUBLIC UTILITIES – WATER FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
OPERATING ACTIVITIES:		
Cash received from customers	\$ 105,071,461	\$ 85,530,063
Cash paid to suppliers and employees	(48,408,124)	(42,262,111)
Cash paid for taxes	<u>(10,604,553)</u>	<u>(8,850,605)</u>
Net cash provided by operating activities	46,058,784	34,417,347
NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Operating grants	31,265	
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of bonds		206,725,066
Principal payments on revenue bonds	(15,298,216)	(12,118,217)
Acquisition and construction of utility plant and additions to deferred assets	(102,953,768)	(117,800,000)
Interest paid	(16,820,204)	(12,883,301)
Contributions in aid of construction	5,183,193	7,018,015
Cash received from disposal of capital assets	2,178,184	1,879,258
Other	<u></u>	<u>(342,306)</u>
Net cash provided (used) by capital and related financing activities	(127,710,811)	72,478,515
INVESTING ACTIVITIES:		
Interest received on investments	<u>6,754,021</u>	<u>1,366,838</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(74,866,741)	108,262,700
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>139,413,275</u>	<u>31,150,575</u>
End of year	<u>\$ 64,546,534</u>	<u>\$ 139,413,275</u>

## SEATTLE PUBLIC UTILITIES – WATER FUND

STATEMENTS OF CASH FLOWS *(continued)*  
YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 32,032,643	\$ 12,387,801
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	18,424,697	19,625,179
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(2,088,662)	984,979
Unbilled revenues	(927,503)	(424,747)
Due from other City funds	2,729,319	(680,690)
Materials and supplies	(32,576)	(479,568)
Current portion of notes and contracts receivable	(2,552)	(989,534)
Prepayments and other	18,846	(26,864)
Notes and contracts receivable	755,478	108,070
Environmental liability	(354,853)	(173,909)
Vendor deposits payable	(159,423)	(374,833)
Accounts payable	(1,600,831)	(1,049,816)
Accrued payroll and payroll taxes payable	(263,055)	329,695
Compensated absences payable	(123,729)	107,700
Due to other City funds	(2,574,956)	3,042,783
Claims payable	305,493	2,109,739
Other liability	<u>(79,552)</u>	<u>(78,638)</u>
Total adjustments	<u>14,026,141</u>	<u>22,029,546</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 46,058,784</u>	<u>\$ 34,417,347</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:		
Revenue deferred related to South Fork Tolt Hydroelectric Project	\$ —	\$ 632,607



# SEATTLE PUBLIC UTILITIES – WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

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### NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Operations:** The City of Seattle, Seattle Public Utilities – Water Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities (SPU) which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. Water services provided by the Fund to other City departments and agencies are billed at rates prescribed by City ordinances. Under direction of the Seattle City Council, no charges are made to the City for water services for public fire protection.

Customer service and utility billing are performed by SPU. The cost of this function is shared among SPU's three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light. For the years ended December 31, 2000 and 1999, the Fund paid \$6,526,697 and \$5,936,903, respectively. SPU charged Seattle City Light \$3,322,062 in 2000 and \$2,916,233 in 1999 for the services provided.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

**Basis of accounting:** The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheets. Fund equity (i.e., net total assets) is segregated into contributions from other governments and retained earnings components. The operating statements present increases (revenues) and decreases (expenses) in total assets.

**Revenues:** The Fund provides water service to wholesale and retail customers. Wholesale customers (Purveyors) are under contract with the Fund and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the Seattle City Council. Billings are made to customers monthly or bimonthly. Revenues for water sold to customers between the last billing date and the end of the year are estimated and accrued in the accompanying financial statements.

**Utility plant and depreciation:** Utility plant is stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of replacements and betterments is capitalized. At the time property is retired and removed from service, the original cost of the property, together with removal cost less salvage value, is charged to the depreciation reserve.

**Depreciation:** Plant in service is depreciated on the straight-line method, using composite rates based on estimated lives as follows:

Earthen source of supply developments	100 years
Transmission and distribution reservoirs, tanks, and mains	50 to 100 years
Pumps, wells, and treatment facilities	15 to 33 years
Buildings, fixtures, and equipment	3 to 50 years

It is the Fund's policy to begin recording depreciation in the year following acquisition and to record a full year's charge in the year of disposition.

**Contributions in aid of construction:** The donor cost or fair value of contributed property and equipment is included in contributions in aid of construction. Depreciation of contributed assets is charged to operating expense.

**Construction in progress:** Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to utility plant. Upon determining that a project will be abandoned, the related costs are charged to expense. During 2000 and 1999, the Fund capitalized interest costs relating to construction of \$12,349,027 and \$7,306,923, respectively.

**Deferred computer systems costs:** The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information systems projects that are to be used internally. Such costs are amortized over the projects' estimated useful lives, primarily six years.

**Preliminary survey investigation costs:** The Fund defers costs associated with preliminary survey investigations and feasibility studies, and amortizes those costs either over the periods for which they are included in rates or over the estimated economic life of the study. In the instance of abandonment of a project, all associated costs would be written off at that time.

**Conservation programs:** Conservation program costs which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives of 10 years, commencing when each program is in place. Costs of administering the overall program are expensed as incurred.

**Environmental liability cleanup costs:** In the ordinary course of conducting its business, the Fund incurs liabilities related to the cleanup of certain environmental contaminants. The Fund's policy is to recognize the expense associated with the cleanup over those periods in which the costs are recovered through rates.

**Cash and equity in pooled investments:** The Executive Services Department – Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary

market, and repurchase or reverse-repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. The City's policy is to hold all investments to maturity. The Fund had no investments at December 31, 2000 and 1999.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

The cash pool operates like a demand deposit account in that all agencies, including the City, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash in escrow held for vendors. Balances on deposit as of December 31 are summarized as follows:

	<u>2000</u>	<u>1999</u>
Rate Stabilization Fund	\$ 4,252,000	\$ —
Cash – Vendor deposits	1,457,510	1,722,883
Construction Fund	50,433,848	134,545,843
Operating Fund	<u>8,403,176</u>	<u>3,144,549</u>
	<u>\$64,546,534</u>	<u>\$ 139,413,275</u>

Capital expenditures are initially funded by the Operating Fund, which is subsequently reimbursed by the Construction Fund.

**Rate Stabilization Fund:** The Rate Stabilization Fund was established in 1993 to reduce future rate spikes. The Water Fund may deposit a certain amount of proceeds from its revenues into the stabilization fund and may withdraw money from the fund and transfer it into any other account in the Water Fund. Deposits into the fund are not included as revenue available for debt service coverage in the year the deposit is made. Conversely, money withdrawn from the fund is considered revenue available for debt service coverage in the year the withdrawal is made. The balance in the stabilization fund was \$4,252,000 and \$-0- at December 31, 2000 and 1999, respectively.

**Timber sales:** The Fund occasionally contracts with outside timber purchasers to harvest timber owned within its watershed and nonoperating properties. Revenue is recognized based on terms of the harvesting contract. The cutting schedules and associated revenues and expenses are primarily determined by market and other factors. Income arising from timber operations may vary significantly from year to year.

Net revenues from commercial thinning, salvage, and timber harvest in the Cedar River Watershed are obligated, in compliance with City ordinance, to support land and habitat acquisition within the watershed.

**Compensated absences:** Employees earn vacation based on their date of hire and years in service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

**Taxes:** The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. In addition, the Fund paid a public utility tax to the state based on approximately 5% of a certain portion of revenues. The remainder was taxed under the business and occupation tax at the rate of 1.5% in 2000 and 1999.

**New accounting pronouncement:** In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective for the Fund in fiscal year 2002. This statement requires governments to present certain basic financial statements as well as management's discussion and analysis and certain other required supplementary information. The Fund does not anticipate a material impact to the financial position or operations of the Fund as a result of implementing this standard.

**Use of estimates:** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Fund used significant estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

**Reclassifications:** Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

## **NOTE 2: OTHER RECEIVABLES**

Other receivables are composed of the following as of December 31:

	<u>2000</u>	<u>1999</u>
Water main assessments	\$ —	\$ 448,763
Land sales receivable	173,113	201,292
Richmond Beach surcharge	<u>          </u>	<u>318,990</u>
	173,113	969,045
Less current portion	<u>(27,599)</u>	<u>(68,053)</u>
Total other receivables, net of current portion	<u>\$ 145,514</u>	<u>\$ 900,992</u>

### NOTE 3: REVENUE BONDS

At December 31, 2000 and 1999, revenue bonds consisted of the following:

	<u>2000</u>	<u>1999</u>
1999B Water System Revenue Bonds, 5.00% to 6.00%, due through 2029, insured by a third-party insurer	\$ 110,000,000	\$ 110,000,000
1999A Water System Revenue Bonds, 4.00% to 5.375%, due through 2029, insured by a third-party insurer	98,420,000	100,000,000
1998 Water System Revenue Bonds, 4.5% to 5.0%, due through 2027, insured by a third-party insurer	77,295,000	78,675,000
1997 Water System Revenue Bonds, 5.375% to 5.625%, due through 2026, insured by a third-party insurer	49,975,000	50,910,000
1995 Water System Revenue Bonds, variable rates averaging 3.3% in 1999, due through 2025, insured by a third-party insurer	44,000,000	45,000,000
1993 Water System Revenue Bonds, 4.7% to 5.5%, due through 2023, insured by a third-party insurer	<u>192,870,000</u>	<u>203,155,000</u>
	<u>\$ 572,560,000</u>	<u>\$ 587,740,000</u>

In October 1999, the Fund issued \$110,000,000 of Water System Revenue Bonds with varying annual and term principal payments due beginning in 2001 and ending in 2029, with interest rates ranging from 5% to 5.75%. Proceeds of the issuance are being used to finance certain capital improvement projects and conservation programs for the Fund.

In June 1999, the Fund issued \$100,000,000 of Water System Revenue Bonds with varying annual and term principal payments due beginning in 2000 and ending in 2029, with interest rates ranging from 4% to 5.45%. Proceeds of the issuance are being used to finance certain capital improvement projects and conservation programs for the Fund.

In June 1993, the Fund issued \$256,255,000 of Water System Revenue and Refunding Bonds with varying annual principal payments due in 1998 and continuing through 2023 with interest rates ranging from 2.70% to 5.50%. A portion of the proceeds from the issuance, in the amount of \$181,887,596, was placed in trust on June 25, 1993, to satisfy future debt service payments and defease the outstanding First Lien Revenue Bonds and Bond Anticipation Notes. The outstanding balance of the defeased bonds was \$-0- and \$36,340,000 at December 31, 2000 and 1999, respectively. Defeased bonds are not included in the Fund's outstanding long-term debt since the Fund legally satisfied its obligation through the refunding transactions. A deferred expense of \$13,427,603 was recorded in connection with the defeasance and is being amortized over the lives of the refunding bonds.

Future principal and estimated interest payments for revenue bonds are as follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 17,595,000	\$ 29,794,206	\$ 47,389,206
2002	18,360,000	28,963,457	47,323,457
2003	19,205,000	28,084,617	47,289,617
2004	20,135,000	27,150,724	47,285,724
2005	16,025,000	26,130,934	42,155,934
Thereafter	<u>481,240,000</u>	<u>329,417,649</u>	<u>810,657,649</u>
	<u>\$ 572,560,000</u>	<u>\$ 469,541,587</u>	<u>\$ 1,042,101,587</u>

The Water System Revenue and Refunding Bonds and Water System Revenue Bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue of not less than 125% of annual debt service and maintain a reserve to secure the payment of principal and interest equal to the lesser of the maximum annual debt service or 125% of the average annual debt service. Adjusted net revenue available for debt service, as defined by the bond covenants, was 161% of annual bond debt service for 2000. The Fund has obtained reserve insurance policies to meet its reserve requirements. Adjusted net revenue available for debt service for the year ended December 31, 2000, is determined as follows:

Net income	\$20,728,048
Add:	
City occupation tax	6,890,171
Depreciation and amortization	18,424,697
Interest on revenue bonds	30,640,955
Amortization of debt expenses and loss	1,400,213
Contributions in aid of construction	5,183,193
Claims and damages and other expenses not paid in 2000	936,684
Noncash investment fair value adjustment	<u>(954,688)</u>
	83,249,273
Less:	
Capitalized interest	12,349,027
Rate Stabilization Fund	<u>4,252,000</u>
Adjusted net revenue available for debt service	<u>\$66,648,246</u>
Debt service requirement (cash basis)	<u>\$41,316,088</u>
Coverage	1.61

#### **NOTE 4: OTHER LONG-TERM DEBT**

During 1993, the Fund entered into an agreement to borrow up to \$2,220,000 from the Washington State Department of Community Development under its Public Works Trust Loan Program for the construction of certain capital improvements. As of December 31, 2000 and 1999, the Fund owed \$1,536,818 and \$1,655,034, respectively. Amounts borrowed under the agreement accrue interest at 1% per annum and are to be repaid in 19 equal annual installments, plus interest.

## NOTE 5: OTHER DEFERRED CHARGES

Other deferred charges consist of the following as of December 31:

	<u>2000</u>	<u>1999</u>
Capitalized information systems costs	\$44,732,414	\$33,891,406
Capitalized conservation costs	12,861,843	8,704,928
Environmental liability costs	4,371,283	4,021,283
Intangible assets	1,194,051	1,193,752
Preliminary investigation costs	1,170,476	1,170,476
Deferred debt expenses and other	4,188,911	4,434,892
Less accumulated amortization	<u>(34,022,296)</u>	<u>(29,991,271)</u>
	<u>\$34,496,682</u>	<u>\$23,425,466</u>

## NOTE 6: ENVIRONMENTAL LIABILITY

The Fund recorded an estimated \$3,000,000 liability in 1995, and increased the liability to \$6,000,000 in 1996 for future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks as well as expected remediation efforts associated with underground fuel tank replacements. The total cost is expected to be recovered through rates over an estimated 14-year period.

The schedule below represents the changes in the estimated liability:

	<u>2000</u>	<u>1999</u>
Beginning liability	\$2,325,842	\$2,499,751
Payments	<u>(354,853)</u>	<u>(173,909)</u>
Ending liability	<u>\$1,970,989</u>	<u>\$2,325,842</u>

## NOTE 7: EQUITY

Activity in the equity accounts is comprised of the following:

	<u>Retained earnings</u>	<u>Contributions in aid of construction</u>	<u>Total</u>
Balance, January 1, 1999	\$ 90,236,750	\$ 136,000,107	\$ 226,236,857
Net loss	(3,412,430)		(3,412,430)
Contributions	<u>7,457,304</u>	<u>7,457,304</u>	<u>7,457,304</u>
Balance, Decemer 31, 1999	86,824,320	143,457,411	230,281,731
Net income	20,728,048		20,728,048
Contributions	<u>5,183,193</u>	<u>5,183,193</u>	<u>5,183,193</u>
Balance, Decemer 31, 2000	<u>\$107,552,368</u>	<u>\$148,640,604</u>	<u>\$256,192,972</u>



## NOTE 8: RETIREMENT PLANS

**Pension costs:** All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City's contribution rate was 8.03% as of January 1, 2000 and 1999. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2000, 1999, and 1998, were approximately \$2,357,781, \$2,430,912, and \$2,400,000, respectively. The Fund's contribution in 2000 represents its full liability to the System.

The System issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

<del>Year ended December 31,</del>	City required <del>contribution</del>	City actual <del>contribution</del>	Percentage <del>contributed</del>
1998	\$ 30.6	\$ 30.6	100 %
1999	29.7	29.9	100
2000	30.8	30.8	100

### ~~Actuarial data and assumptions~~

Valuation date	January 1, 2000
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	0.67%



Schedule of funding progress (dollars in millions):

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liabilities (AAL) entry age (1) (b)	Unfunded AAL (UAAL) (2) (b-a)	Funded ratio (a/b)	Covered payroll (3) (c)	UAAL as a percentage of covered payroll ((b-a)/ c)
1/1/1998	\$ 1,224.6	\$ 1,266.7	\$ 42.7	96.7 %	\$ 341.5	12.3 %
1/1/1999	1,375.0	1,326.6	(48.4)	103.6	370.4	(13.1)
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)

1. Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
2. Actuarial accrued liabilities less actuarial value of assets.
3. Covered payroll includes compensation paid to all active employees on which contributions are calculated.

**Deferred compensation:** The City offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death or unforeseen emergency.

Effective January 1, 1999, the Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

## NOTE 9: RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

At December 31, 1995, the City initiated a program to convert its insurance plan for workers' compensation claims to a cost-reimbursement program. The Fund was included in the first phase of the program and, as a result, accrued an expense and a liability for its workers' compensation claims outstanding at December 31, 1995. The liability had formerly been recorded in the City's Industrial Insurance Fund. Until 1999, the City still maintained the liability for estimated incurred but not reported claims. The liability was transferred to the Fund in 1999.

For 2000 and 1999, liabilities for workers' compensation claims as well as other claims are discounted over a 16-year period at the City's rate of return on investments, 6.17% and 5.69%, respectively. Claims expected to be paid within one year were \$620,340 and \$659,165 at December 31, 2000 and 1999, respectively. The schedule below represents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	<u>2000</u>	<u>1999</u>
Beginning liability	\$2,596,789	\$ 583,047
Payments	(631,191)	(751,073)
Incurred claims and changes in estimates	<u>936,684</u>	<u>2,764,815</u>
Ending liability	<u>\$2,902,282</u>	<u>\$2,596,789</u>

#### **NOTE 10: COMMITMENTS AND CONTINGENCIES**

Seattle Public Utilities has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the operations of Seattle Public Utilities and City Light in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. Expenditures are expected to be funded from a combination of operating revenues and debt.

The Fund has negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration, and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995, and approved in January 1996. The cost for an ozonation facility is estimated at \$80,000,000 to \$100,000,000, depending on facility size and treatment technology. The facility is estimated to be operational in 2004 and will be funded primarily through water revenue bonds issued between 2001 and 2004.

## **APPENDIX D**

### **BOOK-ENTRY TRANSFER SYSTEM**

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## **Book-Entry Transfer System**

*The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the Bonds, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that the Participants deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. In September 1999, the Securities and Exchange Commission approved the integration of DTC and National Securities Clearing Corporation as separate subsidiaries of the Depository Trust and Clearing Corporation ("DTCC"). Through the integration, former owners of DTC (consisting of a number of its Direct Participants, the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc.) became part owners of DTCC.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants. Such Direct Participants will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of such principal and interest to DTC is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances and in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

*The following information has been provided by the City.*

The City may decide to discontinue use of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever.

The City's obligations under the Bond Ordinance, the Bond Resolution and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or Beneficial Owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

**APPENDIX E**  
**CERTAIN INFORMATION REGARDING RESERVE INSURANCE**

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## **Certain Information Regarding Reserve Insurance**

*The information in this section has been provided by Financial Guaranty Insurance Company. The City makes no representation as to the accuracy or completeness thereof. The Beneficial Owners of the Bonds should confirm the following with Financial Guaranty Insurance Company.*

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, [\$1,279,360]. Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the Bonds on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the City. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Reserve Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the Bonds or the date on which no Bonds are outstanding under the authorizing document.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect owners of the Bonds in the event that the City fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents that require Bond owner consent, also be subject to Financial Guaranty's consent. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City of the Bonds is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 2001, the total capital and surplus of Financial Guaranty was approximately \$1.132 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

**APPENDIX F**

**SPECIMEN MUNICIPAL BOND NEW ISSUE INSURANCE POLICY**

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Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001

*A GE Capital Company*

## Municipal Bond New Issue Insurance Policy

**Issuer:**

**Policy Number:**

**Control Number:** 0010001

**Bonds:**

**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001

*A GE Capital Company*



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## **Municipal Bond New Issue Insurance Policy**

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Deborah M. Reif".

**President**

**Effective Date:**

**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in cursive script, appearing to read "Quincy Brown".

**Authorized Officer**

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001

A GE Capital Company



## Endorsement To Financial Guaranty Insurance Company Insurance Policy

**Policy Number:**

**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to read "Deborah M. Reif".

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

A handwritten signature in black ink, appearing to read "Quincy Brown".

**Authorized Officer**  
**State Street Bank and Trust Company, N.A., as Fiscal Agent**